

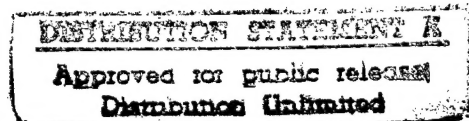
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China Report

ECONOMIC AFFAIRS



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27 August 1984

CHINA REPORT ECONOMIC AFFAIRS

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NATIONAL POLICY AND ISSUES

JINGJI GUANLI ON FLEXIBLE USE OF BONUS SYSTEM

HK271144 Beijing JINGJI GUANLI in Chinese No 6, 5 Jun 84 pp 30-31

[Summarized and edited article by Chen Deyan [7115 1795 3508]: "Flexible Application of the Bonus System"]

[Text] The State Council recently promulgated the "Notice on Questions Related to the Payment of Bonuses by State Enterprises," whereby ceilings on bonuses are lifted and taxes are levied on bonuses in excess of certain limits. This is a major reform of the bonus system and embodies a summary of the experiences of various localities' experimentation in recent years. Now we briefly describe the specific practices of some provinces, municipalities and enterprises in the payment of bonuses.

I. Practicing the "System of Variable Bonus Payments Linked to Taxes," Whereby Bonus Payments Are Linked To the Turnover of Tax Payments and Profits to Higher Authorities

This March, the Fujian Provincial People's Government proposed the implementation of the "system of variable bonus payments linked to taxes" for the whole province. The specific method is as follows:

1. The total amount of taxes and profits for 1983 to be turned over to the higher authorities and the total amount of bonuses for 1983, determined after rational readjustment, are taken as basic figures; the rate of bonus payments as a proportion of various enterprises' taxes and profits turned over to higher authorities is assessed and determined on this basis; and bonus payments vary with the amount of taxes or profits turned over to higher authorities in the absence of any ceilings or floors. The taxes and profits turned over to higher authorities may greatly increase if the state orders an increase in prices or if new capital construction projects go into operation; or, the total amount of taxes and profits turned over to higher authorities may be greatly affected if the state orders a reduction in the prices of products, materials, raw materials, subsidiary materials, or fuels. Such an increase or decrease in taxes or profits must not be taken into account in the calculation of bonuses. The rate of bonus payments as a proportion of taxes and profits may be determined annually or once every several years.

2. The payment of bonuses is administered by a number of different levels and assessed and determined level by level. The Provincial Labor Bureau, Financial Department, and Economic Commission assess and determine the overall targets for the basic bonus payment figures for each year, which must be observed by the local authorities, municipal authorities, provincial government departments, and bureaus (or companies). In light of the economic results of the enterprises under them, the local authorities, municipal authorities, provincial government departments, and bureaus (or companies) must assign the basic bonus payment target figures for the year to the grassroots enterprises. There must not be any egalitarianism in the relationship between the enterprises. The actual amount of bonuses paid in a certain year should vary according to the set rate and according to changes in the amount of taxes and profits turned over to the higher authorities.

3. In the payment of bonuses within an enterprise, bonuses must be calculated according to each worker's contribution, there must be a wider range of grades and frequencies, there must not be ceilings on bonus payments to individual workers, and there must not be egalitarian practices. In light of the actual circumstances, the enterprises can also adopt other specific methods such as variable wages, allowances for certain posts or duties, and so on. Departments in charge of enterprises can also follow the stipulations of the "Provisional Regulations on the Work of Directors of State-run Factories" and commend the leaders of, and issue bonuses to, those enterprises that achieve good economic results and marked success.

4. The assessed and determined basic bonus payment targets cover only regular bonuses paid by the enterprises to the workers and do not cover excess wages under wage systems based on piece rates, payment of wages from retained profits, or earmarking of a certain proportion of retained profits as wages. Nor do they cover the following categories of special bonuses stipulated by the state: 1) awards given according to state regulations for achievements in scientific research, technological innovation, rationalization proposals, or creations and inventions; 2) awards for coal mines based on the tonnage of coal mined, and excess wages for overfulfillment of piece rate work at ports and harbors; 3) awards for economy in the use of specified materials, raw materials and fuels; 4) bonuses for the speedy delivery of goods by ships to other countries; and 5) awards given on a finalized basis, according to provincial government regulations, to workers who make special contributions; and so on.

II. The Payment of Bonuses is Integrated With Systems of Economic Responsibility for Task Completion Under Contracts

The first construction company of Chongqing adopted a system of overall economic responsibility for task completion under contracts. Thus the defects in distribution of "eating out of the big rice bowl" have been brought to an end; the principle of giving due consideration to the state, the enterprise, and the worker has been relatively satisfactorily implemented; the enthusiasm of the broad masses of workers and staff members has been mobilized; and marked economic results have been achieved. In 1983, the average bonus paid to each worker or staff member of the company increased by 1.5 percent compared with the previous year. Their specific method follows.

They practice a system of economic responsibility for task completion under contracts which has numbered sections as the object of responsibility, which is based on budgets for work implementation, which has all-round superiority of the final product as its goal, and which is summarized as "collective fulfillment of all-embracing contracts concerning work on numbered sections, with accounting based on cost coupons for numbered sections." In light of the characteristics of the building and construction industry, mixed working teams comprising various categories of workers are organized. Led by leading groups responsible for numbered sections, they collectively undertake the completion of work on numbered sections according to contracts and are responsible for full completion of the work on the numbered sections according to targets governing time limits for work completion, quality, safety, economy and so on. These working teams are fully responsible for using the money given them in payment of all costs, such as labor costs, costs of materials used at the site, scaffolding costs, costs of low-value and easily worn out tools, machinery costs, and so on. Some of these costs are paid on a lump sum basis, with surpluses, if any, going to the teams, and with no compensation for deficits. Some costs carry awards for economizing and penalties for overspending. All costs for work completion are paid to working teams in the form of the company's internally used cost coupons for numbered sections. In the work implementation process, when a working team receives materials and tools for its own use according to the contract and according to planned quotas, or when it pays wages and rent on machinery, equipment, scaffolding, and so on, it pays in numbered section cost coupons of equivalent value. Upon completion of the work, accounts are settled in terms of cost coupons, which are also taken as the basis for paying wages or calculating penalties or bonuses according to regulations. The award for leading groups responsible for numbered sections consists of bonuses which depend on the rate at which the contracted costs are lowered. Every day the quality and quantity of work done by each worker or staff member is recorded and published on posters. Then the daily workpoints earned by each worker is assessed, bonus coupons are given to each worker according to the workpoints, and bonuses are paid at the right time according to the bonus coupons. Moreover, the company also organizes the drawing up of contracts governing supply and demand between the relevant functional departments can fulfill the contracts and can satisfactorily perform the supply and service work at the foremost front is taken as the basis for assessment and for the appraisal of awards. Thus, within the company, systems of overall economic responsibility are formed which, operating in both vertical and horizontal directions, provide links between higher and lower levels and also between various units at the same level. Thus, various departments of the enterprise are encouraged to cooperate and make concerted efforts to set the goals of their endeavors on the quality of final products and on economic results.

III. Bonus Payments Are Linked To Profits

The Chongqing municipal instruments and meters industry company in Sichuan pays bonuses to the state enterprises under it according to a certain percentage of the profits, and has thus overcome egalitarianism. Last year the enterprises made record profits. Early last year, through estimation and calculation, the company integrated the profit targets assigned by higher

authorities with the total sum of bonuses, and by conversion arrived at the rate of bonus payment as a percentage of excess profits, with no ceilings or floors for the bonuses. If the predetermined total sum of bonuses is exceeded when the enthusiasm of the workers and staff members is mobilized, the company will use funds accumulated in past years as additional bonuses for excess profits. Throughout the year, profits greatly increased owing to the practice of this method. The profit corresponding to each yuan of bonus increased from 18 yuan in 1982 to 22 yuan in 1983. Now a new situation has appeared: Various plants of this company compete for the assignment of tasks without asking for an increase in the supply of manpower.

This year the Chongqing clinical thermometer factory links bonuses to the profits made by the whole factory. The bonuses are made variable. If the planned profits are realized, bonuses are awarded at the basic rate; otherwise, no bonuses will be paid. The amount of additional bonuses varies with the additional profits in excess of the planned profit. There are no ceilings or floors for bonuses. This method of giving awards has helped mobilize the enthusiasm of the workers and staff members. Tapping the enterprise's potential, the factory has raised the fixed quotas by 20 percent, has adopted the method of task completion by workshops or units responsible for various subprocesses according to contracts based on fixed quotas, and has thus greatly increased output. In the first quarter of this year, the factory's output and profits exceeded the planned targets by 19 percent and 88 percent respectively.

IV. Bonus Payments Are Linked To Output

The general shirt and lining factory of Haiyan in Zhejiang, breaking through the old convention of "iron rice bowls" for workers, "eating out of the same big pot," and egalitarianism, is conscientiously implementing the principle of distribution according to work done, whereby income varies directly with work done and there is no remuneration for those who do not work. In the calculation of remuneration for work done, the system whereby remuneration is linked to output and which "fixes two things and guarantees on thing" (that is, fixing the daily output quotas for the workshops, fixing the quotas governing the category of work done by each individual worker, and guaranteeing product equality) is adopted, so that the economic interests of the workers and staff members are closely integrated with the enterprise's operational results and the individual's contribution in work. Contribution in work is the criterion for calculating remuneration. In light of the result of an individual's accomplishment in his category of work according to a fixed quota, an award is given if the quota is surpassed, a deduction in remuneration imposed if the quota is not fulfilled, and there is no ceiling or floor for an excess or shortfall of output. In the distribution of year-end bonuses, the principles of distribution according to work done and basing awards and penalties on clear-cut and fair criteria are also adhered to, and assessment of work and calculation of awards are strictly based on the three main targets of attendance, quality and output.

V. Practicing of a Variable Wage System Whereby Bonuses Are Combined With Part or All of the Basic Wages

The Hefei cardboard box factory is adopting the "economic responsibility system whereby variable or graded wages are linked to profits." That is, the monthly wages are combined with the bonuses and are allowed to vary with changes in the enterprise's economic results. In actual practice, they break down the profit target for the whole factory and assign the partial profit figures to the workshop groups, with graded awards or penalties for different results. The extent of variation is that there is no upper limit for an individual's remuneration, but at the lower end a maximum of 20 percent of the basic wages can be deducted. They call this a system "with a bottom but with no lid." The amount of control by the factory over the workshop ranges generally from 25 percent to 30 percent of total wages.

The Xiangfen steel rolling mill in Shanxi divides the total income of the workers and staff members (including bonuses and various allowances) into two parts: fixed income and variable income. The fixed income portion, including seniority allowances, livelihood allowances, nonstaple food allowances, and grain price differential allowances, is paid to the workers every month in fixed sums. The variable income is a kind of remuneration which depends on workpoints earned and which varies directly with the enterprise's operational results and with the results of an individual's work. The specific method of variation is as follows: Different basic numbers of shares for different posts are first determined according to the magnitude of responsibility born by the workers or staff members at these posts (these "shares" being used for grading and calculating the number of workpoints). The value of a unit share is the total variable wages for the whole factory divided by the total number of shares corresponding to all posts held by the whole staff. Each individual's variable wages can be expressed in the following formula:

Personal variable wages equals (basic number of shares for the post plus number of shares added as an award minus number of shares deducted as a penalty) times the value of a unit share.

VI. Other Methods

Some industries practice the method of responsibility for task completion whereby the amount of wages (including bonuses) for each 100 yuan of output is specified; some enterprises pay a smaller sum of bonuses and use the money thus saved for stepping up the variability of the wages of some workers or staff members, or for carrying out wage reforms funded by the enterprises themselves; and so on.

The awarding of bonuses without ceilings has just begun to be practiced in state enterprises. The specific methods must be further studied and perfected in the practice of reform.

CSO: 4006/694

NATIONAL POLICY AND ISSUES

PAPER URGES COORDINATING ECONOMIC LEVERS

HK090744 Beijing GUANGMING RIBAO in Chinese 22 Jul 84 p 3

[Article by Xu Yi [6079 3015]: "On Coordinating the Application of Economic Levers"]

[Text] Since the 3d Plenary Session of the 11th CPC Central Committee, we have corrected "leftist" mistakes in economic work, relaxed policies, initially reformed the economic management system, and have also made considerable achievements in readjusting the application of economic levers. But as we are not consistent in our understanding of these aspects, there has appeared a certain lack of coordination or the practice of trying to solve all problems by merely relying on a certain economic lever. Therefore in carrying out further reform in the future, it is imperative to conscientiously study coordination in the application of various economic levers so as to promote the socialist system of regulating by economic levers. This work is imperative because first, economic levers represent a way to apply economic law. In applying economic levers, we cannot consider the roles of a certain law only in isolation. That is, we must consider the modes of various economic laws in an overall way on the basis of economic law so that various economic levers will coordinate each other to form and perfect economic lever regulating system. Second, the state must define various economic policies because under the socialist system there have also existed various economic forms. Consequently, in applying economic levers, it is imperative to study coordination in the application of these levers so that we will be able to consolidate and develop the socialist mode of production, coordinate the relationship of the various economic factors and promote the development of social productive forces. Third, different economic levers have different functions and a certain economic lever in general can only regulate the contradiction of a certain aspect. Therefore it is imperative to study coordination in the application of the various economic levers. The following explains the different functions and relationships of certain major economic levers.

Financial Lever

Socialist finance represents an important link of the state in distributing social products and national revenues in a planned way. It has an important role in regulating the distribution of social compensation funds, accumulated funds, and consumption funds in a planned way, arranging in a planned way the

proportion between accumulated funds and consumption funds, between productive accumulation and nonproductive accumulation in accumulated funds, the proportion to be invested in agriculture, light industry, and heavy industry of productive accumulation, the proportion to be set aside for the accumulation of fixed assets and the accumulation of working assets, and the proportion of consumption funds to be used for social consumption and for individual consumption. And through the various distribution structures, socialist finance is in a position to control the social economic structure, production structure, the structure of social undertakings, and the level of people's cultural and material life.

But in addition to the financial lever, there are other major levers in distributing social products and material resources such as wages and prices. Therefore it is necessary to handle well the relationship between the financial lever and wage and price lever. On the one hand, as a tool for the state in distributing social products and national revenues, finance has its role in combining and controlling wage and price levers. On the other hand, and under the premise of realizing comprehensive balance, the financial lever must respect the distribution function of wages and prices. That is, financial distribution is not in a position to directly govern the law of circulation, the law of distribution according to work, and the law of value. But it can, through the tax lever, profit lever and subsidy lever, coordinate and control the price and wage levers. Consequently, in distributing national revenues, finance is in a position to show the needs of basic socialist economic law, the law of planned development, the law of distribution according to work, and the law of value.

Price Lever and Tax Lever

Prices are a form of the law of value and they represent an important way to govern the law of value. The law of value and the law of supply and demand represent the law of commodity production, therefore prices always fluctuate according to changes in commodity supply and demand and in implementing their functions of commodity exchange they also carry out the function of distribution.

Under the socialist system in China, the socialist mode of production determines that the state must carry out the production, distribution, and exchange and control of the consumption of the major commodities that are important for the national economy and people's life in a planned way. Consequently, planned prices in fact represent the lever that consciously regulates supply and demand. Ordinary commodities are regulated through the market mechanism and this means spontaneous regulation on the basis of market supply and demand, coupled with state guidance. Therefore it is necessary to define rational parity by consciously and intentionally making use of the deviation between prices and value so as to guide production and consumption and regulate the contradictions between production and demand to enable these two aspects to meet the needs of the planned and proportionate development of the national economy.

But the role of the price lever is limited, with its own contradictions. For example, high prices and profits can promote production but they are unfavorable for consumption. On the contrary, low prices and profits will en-

courage consumption but not production. These contradictions represent the limitation of prices. If prices are levelled, they can in no way regulate supply and demand and the levelled prices themselves are against the law of value. If prices are permitted to develop spontaneously, enterprises will carry out mass production when there is big profit and lower their production when the profit is low. Therefore in order to be able to consciously resort to the law of value, it is imperative to apply both the price lever and tax lever. Under the socialist planned economic system, the application of these two levers represents the necessary conditions for introducing planned prices and an important way for guiding regulation by the market mechanism and carrying out macrocontrol.

As the price system in China has remained unchanged for quite a long period, the parity between many products has become irrational. It is impossible to change prices in a big way at present. Therefore to introduce the substitution of taxes for the delivery of profits in state enterprises and to form a tax system that is characterized by many forms of taxes, many links, and many levels are very important for easing and solving the different and unequal profits and losses of enterprises that are caused by irrational prices and stabilizing and distribution between state and enterprises. For example, the application of product taxes and resources taxes will coordinate price policy in regulating the level of product profits. The application of income taxes and regulation taxes will directly regulate the retention level of enterprises. Enterprise after-tax retention of profits can also be regulated through the collection of energy and transportation funds, building funds, and bonus funds. In short, the application of the tax lever is in a position to help enterprises get rid of the unequal profits and losses that are caused by prices and irrational objective factors. In this way, the remainder of the profit that is left after taxation will be retained and distributed by the enterprises. And as a result, the relation of the distribution between the state and enterprises can be stabilized while the enterprises themselves will be both motivated and pressured to improve their management and economic results. This situation shows that in consciously applying and making use of the law of value, it is imperative that prices must be coordinated with taxes. Practice proves that any move to use one lever to solve the complicated contradictions in economic life will not work.

Wage Lever and Bonus Lever

Wages and bonuses are economic levers that embody two needs of the law of distribution according to work and makes use of this law. The function of wages and bonuses is to correctly handle the relationship of distribution between the state and laborers and control the amount and proportion of individual consumption funds in the national revenues.

Basic wages represent the due payment (standard wages) for the labor of workers and staff members and this payment is based on a certain labor quality and quantity. Therefore basic wages are the basic component of the individual consumption fund. Wages will increase when labor productivity has been improved, but are relatively stable during a certain period and they represent the basis for the state to control individual consumption funds.

Bonuses mean additional payments for labor above the quota and it is paid after social deductions. It is a necessary supplement to wages. Above quota labor is the premise for the existence of bonuses as well as the criterion for determining the amount of the bonus paid.

Wages in general have two forms, piece rate wages and hourly wages. Piece rate wages include standard wages and above quota labor payments. They are based on fixed staff and quotas and labor quality and quantity. This means that with these wages, those who work more will gain more while those who work less will get less. Therefore piece rate wages are a better form for breaking with the situation where "everybody is eating from the same big pot." But this form is not applicable to all work. Therefore we have introduced another form, hourly wages. With hourly wages, labor payment is calculated on the basis of labor skills, labor intensity and labor hours. But hourly wages are not in a position to really control the quality and quantity of labor products. Therefore this wage form is supplemented by the distribution of bonuses which are given to the laborers who have made more contributions to the state in saving materials and producing high quality products as well as in carrying out production above the quota. But this practice is conditional because it is carried out on the basis of fixed staff and quotas, coupled with strict checking. But recently, a number of enterprises have failed to do a good job of this basic work. Consequently, these enterprises have not been able to increase production, economize, and improve economic results although they have paid considerable amounts in bonuses. Essentially speaking, the reason is that these enterprises have failed to apply the wage lever and bonus lever. Therefore before we can correctly make use of these levers, we must form and perfect the system of fixed staff and fixed quotas. enterprises must form a system to regularly check on attendance, quality, and popularizing technology on the basis of the technological level of workers and staff members so that wages will really represent an important way to carry out distribution according to work. At the same time, bonuses must be issued in such a way that it will really become additional payments for above quota labor to display its role as an economic lever in awarding the diligent and punishing the lazy.

The application of wage and bonus levers must be coordinated with financial distribution. It is not only because the growth of wages and bonuses is closely related to financial income and therefore wages and bonuses must be comprehensively balanced, but also because in order to macroscopically control consumption funds to avoid inflation, it is necessary for finance to regulate it through controlling quota volume and levying bonus taxes. Therefore it is necessary for an enterprise to define total wages and bonuses on the basis of the improvement of labor productivity, decreases in the consumption of goods and materials (including decreases in expenses), the growth of net output value, and the growth of profits. That is to say, when enterprises are able to control through the economic method, they not only have decisionmaking power and will also be able to carry out macroscopic control. The so-called "no ceiling on high levels and no bottom on low levels" means the implementation of the principle of more gain for more labor, less gain for less labor and no labor, no gain. Therefore we can in no way regard no ceiling and no bottom as paying and deducting wages and bonuses at will and without control.

Of course, the payment for labor must include not only wages and bonuses but also labor protection, welfare, and various financial subsidies that must also be unifiedly considered as representing economic conditions.

Credit Lever

The credit lever is an economic lever that covers the law of circulation. It regulates the use of capital in the process of the circulation of commodities. It is a powerful economic lever for introducing the planned economy and defending and consolidating the socialist mode of production.

The amount of capital in socialist society reflects the amount of goods. In the national economy, various forms of capital, including state financial capital, enterprise capital, the capital in the circulation of production in rural areas and towns, the expenses of organizations, and bank savings and cash in the hands of the citizens, can only be realized through banks. And banks have been able to concentrate capital in society through credit business so that scattered and idle capital can be put into society again for circulation. Under a definite distribution structure, bank credit has an important role in transferring capital for better circulation and making use of social capital. It also has played an important role, through the lever of different interest rates, in encouraging people to economize in the use of capital and improve efficiency in the use of capital. When banks are able to make better use of capital, it means that the banks are in a position to economize on the working capital allocated by the state. Under the situation in which the working capital is allocated by the banks, the state is in a position to reduce additional allocations for bank credit funds. The levers of financial distribution and credit have different functions. Financial distribution controls the economic structure through distribution. Financial distribution can only distribute capital through revenues and expenses or by dividing power and responsibility; it cannot regulate surpluses and shortages of working capital. Therefore financial distribution cannot replace the function of credit. Finance and credit are interrelated and they condition each other. If there is a surplus of the social capital raised by the banks after meeting the needs of working capital and under the condition that financial revenues are balanced with expenditures, it is necessary for the banks to provide long- and medium-term loans in a planned way. But these loans will affect the structure of distribution in different ways. Therefore they also have the nature of distribution. Consequently, it is necessary that these loans must be balanced with annual financial revenues and expenditures as well as with long-term plans. On the contrary, if the loans are unbalanced with finances and goods, they will affect state planning and create new imbalances.

Certain enterprises that have failed to implement state technological and economic policies and that have no capital are reported to have demanded loans from banks; to be repaid with before-tax profits obtained from this investment. This means that these enterprises will bear no economic responsibilities whether or not they are able to repay the loans. This situation is no different from the practice of "everybody eating from the same big pot" and it is also against the system of socialist planned economy. Therefore, the state has stipulated that such loans must accord with state technological and economic policies and

the borrowers must have a certain proportion of their own capital. This stipulation represents a combination of flexibility with responsibility. It is also based on activating the microeconomy by resorting to the credit lever so as to realize macrocontrol.

It can be seen from the above exposition that the financial lever, price lever, tax lever, wage and bonus levers, and credit lever have different functions. But they are related to and they condition and supplement each other in their application in social reproduction and economic law. They cannot replace each other, nor can they act in isolation, let alone solve all problems with a single lever. This situation reflects the complexity of objective economic life. Therefore we must fully understand objective economic law and be good at applying economic levers so that we will be able to consciously apply and make use of the economic law.

CSO: 4006/695

NATIONAL POLICY AND ISSUES

GUANGMING RIBAO ON RURAL COMMODITY PRODUCTION

HK081325 Beijing GUANGMING RIBAO in Chinese 30 Jul 84 p 3

[Article by Tao Haisu [7118 3189 4725]: "The Development of Commodity Production Is a Contributory Factor to the Building of Spiritual Civilization in the Countryside"]

[Text] In recent years, as our rural economy develops vigorously, a picture of activity has also appeared in the field of ideology and cultural undertakings. We have gained many new and fresh experiences in the mutual promotion of the building of the two civilizations. Among other things, an important experience is that the development of socialist commodity production is a contributory factor to the building of socialist spiritual civilization.

Spiritual civilization represents the results of people's efforts to develop and transform their subjective world. The decisive factor for the development of spiritual civilization is people's practice in transforming the objective world and the summation of all conditions, ingredients and ways of this practice.

Material production is the most important practice of the people. Since the third plenary session, the in-depth rural economic reform, which centers on the introduction of the contract responsibility system, has led to the emancipation of productive forces and the development of commodity production. The entire rural economy is shifting from self-supporting production to large-scale commodity production. This great change in the way of production has given a great impetus to the development of rural spiritual civilization in both the cultural and ideological aspects.

The cultural aspect of spiritual civilization includes the development of undertakings such as education, science, public health, and physical culture as well as the raising of the level of general knowledge of the people. In the past, although we organized individual peasants in the cooperative economies through the agricultural cooperation movement, the pattern of self-supporting production was not changed radically and the rural cultural undertakings did not develop substantially because of the influence of the "leftist" deviation in our rural work. However, the vigorous development of commodity production has greatly invigorated the development of rural cultural undertakings, while promoting the social division of work in the countryside and enlivening economic activities.

First, the development of commodity production has stimulated peasants' demands for cultural products. Not only does the process of commodity production require a higher level of cultural undertakings, but peasants who have benefited from the development of commodity production also desire to lead a richer cultural life. At present, our rural commodity production represents an essential change from traditional agriculture to modern agriculture. Therefore, its requirements for science, technology, management skill, and market information are increasing. This is greatly arousing the peasants' interest in studying scientific knowledge, increasing their needs for the media, including newspapers and broadcast, and all kinds of books and materials, and is prompting the peasants to attach more importance to scientific and general knowledge. With the development of commodity production, peasants have gained higher incomes, acquired more spare time, and widened their vision through increasing exchanges between town and countryside. Thus, they no longer rest content with acquiring sufficient necessities of life, but also desire to make their lives more colorful, healthy and relaxed. All this has become a strong motive force in the development of various rural cultural undertakings.

Second, the development of commodity production has laid a solid foundation for the development of rural cultural undertakings. In the past, state investment in rural cultural undertakings was quite limited, and most collective economies were not able to develop these undertakings either. However, since commodity production began to develop, both collectives and individuals have increased their incomes and thus become able to raise funds to develop various cultural, educational and recreation facilities. On the other hand, the rural cultural undertakings have also changed from a means of propaganda into a profit-making link of the comprehensive rural economic system. Many collectives and individuals operate cultural undertakings as a special kind of enterprises, and a large number of "cultural specialized households" have emerged. This enables the cultural undertakings to operate on a self-supporting basis and become more dynamic.

Third, the development of commodity production promotes the growth of small towns which act as commodity distribution centers and information centers, and this is an important condition for promoting rural cultural undertakings. The development of modern civilization is closely linked with the development of towns and cities. Without the relatively dense population, intensive exchanges, concentration of industries, and development of various infrastructural facilities in towns, it would be impossible to fully develop various modern cultural, educational and recreation facilities. This has been fully proved by the reciprocal promotion of the development of small towns and the building of cultural centers in the countryside.

The development of commodity production has not only promoted the development of cultural undertakings in the countryside, but has also played an important role in promoting ideological education. On the one hand, the development of cultural undertakings provides a foundation and the necessary contributions for raising the level of people's political consciousness and morality; on the other hand, the characteristics of commodity production had their bearing on the improvement of relations of production directly affect people's mental conditions. Communism is a scientific theoretical system based on all the

merits and achievements of human culture. Without a high level of general knowledge and a rational understanding of the law governing social development, it is hard to establish a firm belief in communism. The development of rural cultural undertakings has effectively enriched and expanded the means of communist education, and has created basic conditions for improving people's ability to understand the communist theory and to receive communist education. This is also true of the issue of elevating people's morality. The principle of collectivism, which is the core of the communist morality, is mainly reflected in people's associated work under the socialist system. However, socialist moral values constitute a system which has substantial content and can be divided into different aspects. Many aspects of socialist morality are directly related to the cultural attainments of the masses. For example, moral requirements in the "five stresses and four beauties" are mostly based on people's educational level and cultural attainments. Therefore, the development of rural cultural undertakings, which results from the development of commodity production, forms an important condition and a foundation for the enhancement of people's ideological consciousness.

At present, commodity production, which is developing in our countryside, is an open and socialized pattern of production which is linked with advanced technology. This pattern of production represents a revolution against the conservative, close, stodgy, and self-supporting pattern of production. This revolution in production patterns will also bring about imperceptible changes in peasants' mentality and values, will strongly pound upon the mentality and habits of small production and upon residual feudal ideas, and will effectively prompt the peasants to emancipate their minds and develop their intellectual and physical ability. For example, because commodity production requires peasants to put their products into the market and to conduct economic accounting, this will thus eradicate the foundation for the conservative and self-contented mentality that has long existed in peasants' minds and will boost peasants enterprising and creative spirit. Because commodity production requires strict definition of responsibility and scientific division of work, the feudal and patriarchal ideas, sexual discrimination, and the dilatory style of work will all be changed, and the peasants' sense of democracy and discipline will be greatly increased. In addition, contract relations, which are developing in company with commodity production, will help overcome the incompatible mentality of dependency, commandism, and privileges and prompt the peasants to establish the spirit of equality and ideas of self-determination. This will also help rural cadres to overcome their bureaucratic style of work.

In short, the development of commodity production will never serve as a negative factor for the building of socialist spiritual civilization. Although some negative things may appear in the process of commodity production, the development of commodity production will in the main provide a broader scope and a more profound foundation for the development of healthy and new things. This positive role represents the main stream of the development. Some comrades are worried that the principle of exchange at equal value, which is prevalent in commodity production and circulation, may lead to a profit-before-everything mentality and other decadent ideas, such as the idea of harming others to benefit oneself. This worry is unnecessary. Socialist commodity production

is essentially different from capitalist commodity production. Under the socialist system, commodity production is conducted on the basis of negating exploitation and preventing labor from being changed into commodity. Socialist commodity production is conducted under the guidance of plans. As a fundamental principle, socialist commodity production does not allow anyone to exploit others' labor through the use or possession of the means of production. Therefore, commodity exchange at equal value under the socialist conditions does not lead to the possession of surplus labor. This exchange at equal value only reflects the equal relations of laborers in their work and ensures that they can earn more if they make greater contributions. Therefore, the principle of exchange at equal value should not be regarded as that which functions in capitalist commodity production. The exchange at equal value in socialist commodity production will certainly find expression in people's mentality, but what it will produce is the mentality of equality and mutual benefit between the interests of the state, the collective, and the individual and between laborers, it will never engender those decadent ideas arising from the capitalist free competition and commodity production.

The development of socialist commodity production in general is conducive to the building of socialist spiritual civilization. But this does not mean that it can substitute the specific contents of the work of building spiritual civilization. It is still necessary for us to publicize the scientific theory of communism and to control the orientation of various cultural undertakings under the guidance of communist ideology. The development of commodity production under certain conditions may bring about some negative things, and it is also necessary for us to resist and oppose these negative things. We should not relax efforts in this field. In recent years, many rural areas have gained successful experiences. For example, some localities have been carrying out the activities of building "civilized villages" or establishing fixed relations between party members and peasant households; and some localities have been cooperating with army units in promoting spiritual civilization. All this has achieved good and marked results. Their work has not only effectively promoted civilization, but has also promoted the development of commodity production and played an important role in ensuring the correct orientation of commodity production.

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NATIONAL POLICY AND ISSUES

LICENSES ISSUED FOR MAKING DRAWNWORK PRODUCTS

OW100455 Beijing Domestic Service in Mandarin 1200 GMT 7 Aug 84

[Text] In view of the problems concerning the unplanned development of the drawnwork industry and of too many factories being set up for making drawnwork products, the State Economic Commission, the Ministry of Foreign Economic Relations and Trade, and the Ministry of Light Industry have issued a joint circular on the issuance of licenses to 107 enterprises for making drawnwork products as well as hand embroidered and knitted items for export.

Drawnwork products are one of the major export items of our country, earning foreign exchange in the amount of \$350 million per annum. The decision to issue production licenses--adopted by the State Economic Commission, the Ministry of Foreign Economic Relations and Trade, and the Ministry of Light Industry--is aimed mainly at protecting the traditional famous brand name and highly marketable products and coordinating their production and sales with a view toward increasing the volume of exports.

The above circular stated that enterprises granted production licenses must make continuous efforts to improve their work, go all out to make new products as required by the market, practice strict quality control, and strive to lower production costs. Above all, they must fulfill the contract terms regarding the delivery of goods and make every effort to raise the economic results of their operations. Failure to meet these requirements may result in the withdrawal of the production licenses. Port cities engaged in foreign trade should not place orders with or buy any products from enterprises without production licenses. If they are found to be in violation of this rule, a public notice will be issued to subject them to criticism; those with continued violations will no longer be permitted to do business in this field.

The circular further pointed out that there are 26 enterprises that have not been granted production licenses, pending a further study of their operations. These enterprises should make serious efforts to improve themselves. After 1 year, if they can meet the requirements, they will be included in the next batch of enterprises to receive production licenses.

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NATIONAL POLICY AND ISSUES

JINGJI GUANLI ON TWO-TIER DISTRIBUTION

HK080905 Beijing JINGJI GUANLI in Chinese No 6, 5 Jun 84 pp 15-18, 24

[Article by He Tianzhong [6320 1131 0022]: "The Implementation of Two-Tier Distribution Is Imperative"]

[Text] At present, our country faces the challenge of the new technological revolution of the world. We must improve the quality of the enterprises as fast as possible and shift the focus of economic work onto improving economic returns. However, our system of distribution is incompatible with the needs of development, it affects the initiative of the enterprises and the workers and must be reformed as soon as possible. The reform of the wage system was put forth by the party Central Committee a long time ago, and it was also eagerly desired by the enterprises and the workers, but nothing has been done in this respect over the last two decades and more. In my opinion, it is not true that the objective situation ruled out the possibility of a large-scale reform, but that we were influenced by "left" disturbances and have failed to comply with the Marxist spirit of proletarian emancipation and rely on the efforts of both the enterprises and the workers to reform the irrational system of distribution. Thus, the state always had to shoulder a heavy burden. In my opinion, it is now necessary to implement the wage system of two-tier distribution and implement the party's policy of enriching the people in order to enable the enterprises and workers to do their best, rapidly open up a new situation in reforming the wage system, bring about a breakthrough in reforming urban economic work and achieve a good economic situation similar to that in the rural areas.

I. It Will be Difficult to Initiate the Reform of the Wage System if the One-Tier Distribution System has not Been Reformed First

Reform of the wage system must be carried out right to the point. No matter if we are readjusting the wage indexes, reforming the wage structure, or improving the wage relationship, money is involved, and it should be done on the basis of increasing wages. There are two sources of increasing wages: First, by state arrangement; second, by means of the efforts of the enterprises and workers under the guidance of state planning. In the past, people always relied on the former method, and were reluctant to give the burden to the enterprises and the workers. During the "first 5-year plan" period, the state only paid several billion yuan to settle wage reform for 24 million workers.

This remained unchanged for the following 28 years. The new proposal under consideration at present encounters the question of the rate of wage increase and the possibility of financial burdens. Naturally, under the conditions of financial deficits and an excessive growth of consumption, the state is unable to provide a large sum of money for launching the wage reform, even if the national economy is put in order, it is hard to envisage that the state can spend a lot of money on reforming the wage system. In my opinion, the main problem is that our highly centralized one-tier distribution system has delayed the whole course. The characteristics and problems of such a distribution system are:

1. As far as the relationship between the state and the enterprises is concerned, hundreds of thousands of enterprises are united in the state is "a big common pot" from which everyone eats. In dealing with the wage problem, we used to proceed from the general economic situation of the state, regardless of the level of economic return of the individual enterprises. Due to the practice of handling things in the same manner regardless of the actual situation, the wage of workers is out of line with the business situation of the relevant enterprises.
2. When the state directly implements the system of "remuneration according to labor" among the workers, deviating from the cardinal link of the enterprises, it is in fact running a system of unified revenue and unified expenditure, ensuring stable yields despite drought or excessive rain. When the state fixes wage indexes, the allowance system, the bonus limit, and the regulations for workers' promotion, what the enterprises can do in wage distribution is to, in accordance with state regulations, ensure that each worker gets what he deserves and distribute expenses proportionately. The wages of administrative units are to be paid from administrative expenses, and the enterprises are reimbursed what they have spent in relation to production costs and profits.
3. There is not a definite proportion in planning or in the system concerning how much is allocated on production and living, and on the level of wages and the level of economic returns of production. On the question of wage growth, the state has a unified policy, and neither the enterprises nor the workers have appropriate decisionmaking powers, nor can they improve the standard of living by making more efforts.
4. Making the latent labor and mobile labor of the workers the basis to formulate the wage scale system and wage payments. That is to say, the wage scale and the allowance of a worker has already been fixed before he actually participates in production. The wage income of the workers is on the one hand disjointed from the materialized labor of the enterprises and, on the other hand, does not link up with the labor and contribution of the individual workers. For instance, the 8-grade wage system includes the combination of technical grade, wage grade, and work grade. The wage system of grades of duties implemented by the cadres takes duties, academic qualifications, and working experience into account. Thus, academic qualifications, official rank, type of work, and experience will be the main criteria to decide wage distribution, and the actual production results of the collective and the individuals are ignored.

All in all, the system of one-tier distribution is the "big pot of rice" provided by the state to the enterprises and workers. Our basic experience gained in regard to wages is that we should allow the enterprises and workers to shoulder production and management responsibilities and, on the basis of improving efficiency and economic returns, improve the workers' living by relying on them. If all the problems of wages are to be handled by the state, all people will become anxious to have their problem solved first, and the state will be unable to satisfy all the demands of the lower levels. Since the implementation of the various production responsibility systems such as contracting production work to the households, the output-related system of contracted responsibilities, and contracting specialized production in the rural areas, the rural economy has been enlivened and development has been fast, but in the urban areas, the hands and feet of the enterprises and workers are still bound. Thus, in my opinion, if the shortcomings of one-tier distribution are not eliminated, the reform of the wage system will take very long.

II. The Two-Tier Distribution System is the Breakthrough for Pushing Forward the Improvement of the Economic Returns of the Enterprises and Workers and Reforming the Wage System by Self-Reliance

Regarding the present reform of the economic system in the urban areas, whether establishing and perfecting the management responsibility of the enterprises or pushing toward the system of replacing profits payment by taxation, it is of utmost importance to solve the question of "a big pot of rice" among the enterprises. The two-tier distribution system is to set up a wage management system in which the state looks after the enterprises and the enterprises look after the workers. The characteristics are as follows:

1. Implement the system of being responsible for profits and losses to enable the workers' wages to link up closely with the production and management results of the enterprises. That is to say, the state fixes the main economic indexes of the enterprises and the total amount of wages (inclusion of all the consumption funds of the enterprises can be considered) and a rational floating proportion of the two, and that the total amount of wages depends on the accomplishment of the main economic indexes. The total amount of wages of the enterprises is no longer a constant absolute amount, but is a variable which fluctuates in accordance with the production task and the economic returns achieved.

2. Within the limit of the total amount of wages withdrawn by the enterprises and under the regulation, guidance and supervision of the state policies, the enterprises are given the right to decide the question of distribution of the workers. For instance, the enterprises can decide for themselves the criterion for workers' promotion and granting of allowances and bonuses and the kind of wage form to be adopted. The state must stipulate unified criterion for wages or criterion with slight deviation. If the economic returns of the enterprises are too low and fail to balance expenditures, the state should not guarantee standard wages and should not promote the practice of ensuring stable yields despite drought or excessive rain. On the other hand, if the economic returns are high, higher wages can be disbursed after approval. In short, wages must be enlivened microeconomically.

3. The wage funds of the enterprises should come from their net production output. That means when the enterprises have turned in a certain portion of their net production output to the state (such as taxation), a portion of the production output is to be retained for funds and a portion is to be distributed to the workers as wages.

The prominent merit of the two-tier distribution system is to link the interests of the state, enterprises and workers to the axis of production and economic returns, enabling them to become a better community of destiny. It realizes the spirit of letting the people "manage the economy and cultural affairs" which has been stipulated in the constitution, and gives the enterprises and workers the decision-making right to distribute the results of their own labor. It enables the enterprises and the workers to shoulder the masters' burden of guaranteeing state financial revenue and perfecting the distribution system, and improving the living conditions of the workers. In this way, the state can change from a passive to an active status and shake off the difficulties of raising funds alone for reforming the wage system of the enterprises and readjusting wages. Thus, the role of the enterprises and workers also changes from a passive one to an active one. If one wants to reform the wage system and improve the level of wages, one must become better off first and show above average production achievements and economic returns. When one's production achievements and economic returns are poor or one fails to fulfill the state plans not increasing or even lowering the income of the enterprises, individual income will not be increased, and one has to be held responsible for failing to submit taxes to the state.

III. The Theoretical Foundation and Basis of Practice of the Two-Tier Distribution System

In 1980 and 1981, when certain publication published articles on two-tier distribution according to labor, it aroused different opinions in theoretical circles.

The main foundations of two-tier distribution are, first, remuneration according to labor is an exchange of equivalent labor, however, in the course of modern large-scale production, the social products are formed and economic returns are obtained only after the entire course of production of the enterprises has been completed, and the individual workers cannot directly provide the society with products or create value alone. Second, such an exchange of equivalent labor is an abstract exchange of essential labor which is socially average. Thus, the workers' income must hook up with the production and management achievements of the enterprises. As far as wage distribution is concerned, it is hard to effectively realize remuneration according to labor when the enterprises "eat from the same pot of rice" from the state and when the state implements direct distribution to the workers. Comrades who hold a different view stress that remuneration according to labor is the distribution of individual consumption materials to the workers and is an exchange of the equivalent labor of the individual and the society; and that two-tier distribution according to labor has presented the relationship between the state and the enterprises as a wrong relationship of remuneration according to labor because deviations exist in the profits obtained by the enterprises. Some even say that this revises the principle of remuneration according to labor and

changes the nature of the enterprises under the all-people's ownership system. As a matter of fact, a tentative idea of Marx was direct socialization of labor whereby society directly exchanges equivalent labor with the individual. But we are now building socialism in the course of developing our country, we must still develop commodity production and develop diversified economic elements and we are not to do away with the unitary economy of all-people's ownership in which commodity exchange is practiced. When the social and economic conditions differ and when we no longer stick to the tentatively planned method or formula, this does not mean revising the basic meaning of remuneration according to labor. The two-tier distribution system mainly solves the question of how to scientifically assess labor yielding units (enterprise collectives and individual workers) and the procedure, and calculate the labor rewards in accordance with the collective labor results of the enterprises under the condition of eliminating as far as possible the deviation of results brought about by the objective factors. As far as the question of creating production by means of the enterprises under the conditions of large-scale socialized production is concerned, Marx once said, in relation to division of labor and the handicraft industry: "Part of the workers do not produce commodities. It is the common product of the partial workers that change into commodities." ("Das Kapital" Vol I, p 393) The implementation of the two-tier distribution system does not negate the wage criteria fixed by the state. However, the present unified wage criteria mainly reflects differences in latent labor ability and does not reflect the actual daily production volume of the workers. The implementation of two-tier distribution can make up for the shortcomings in this respect, more closely linking remuneration with labor. Two-tier distribution does not negate but really realizes the law governing the proportionate development of the national economy. The state of the proportion of the total amount of wages to the fruits of production of the enterprises as stipulated by the state and the maximum limit of the growth of wages is macro-planning control. Therefore, it does not involve the question of changing the nature of the all-people's ownership system. The interpretation that the relationship of remuneration according to labor is a misinterpretation of the proposal of two-tier distribution according to labor. When the state implements remuneration according to labor among the enterprises, it does not mean that the relationship between the state and the enterprises is that of a relationship of remuneration according to labor. It only means that a certain portion of the net income of the enterprises is distributed to the workers as consumption funds and that it must comply with the collective labor and contribution of the workers. Its basic concept is to advocate the linking up of the total wages of the enterprises with the economic returns of the production of the enterprises.

There can be different theoretical contentions, but actual economic life must ultimately develop in accordance with the objective laws. Two-tier distribution is not deduced from the classical workers, but comes from actual practice. For numerous years in the past, we used a unified criteria of wages as the standard for distribution; wages were disjointed from the production and management achievements of the enterprises. Although the growth of production value was not slow, the actual economic returns were low and the people did not get appropriate interests. Since the 3d Plenary Session of the 11th CPC Central Committee, the power of the enterprises were expanded and the enter-

prises were allowed to retain a certain portion of profits, and a small portion of the workers' income, that is the bonus, began to be linked to the economic returns of the enterprises, and since the further implementation of the economic responsibility systems in 1981, the bonuses of many large, medium and small enterprises, bonuses of some enterprises and certain standard wages were linked to the business of the enterprises and the profit tax. The construction industry trial-implemented the method of withdrawing wage fund in accordance with the wage of work of each 100 yuan, the catering and services trade also retained certain wages and the contracted business of the small enterprises and so on have considerably improved and reformed the distribution system. In addition, work also was contracted to households and individuals in the state farms and forests. In the initial step of the implementation of replacing profits payment with taxation in 1983, it was stipulated that the bonus was not to be included in the production cost, it should be linked to the profits and be paid from the retained profits of the enterprises. It was explicitly pointed out in approving and relaying the State Council "report on readjusting wages and reforming the wage system in 1983" that "one prominent characteristic of this readjustment of wages in the enterprises is that readjustment of wages must be linked to the economic returns of the enterprises and must be linked to labor of the individual workers." The enterprises must set aside a certain portion of retained funds to implement the system of floating promotion and a small number of enterprises must launch reform of the system of wages with their own capital on a trial basis. After these reforms, the system of floating wages, floating promotion, and reform of the wage system with the enterprises' own capital are now gradually accepted and supported by the masses, and in light of the actual situation, it is a success in general. The prominent growth of industrial production, labor productivity, and economic returns in 1983 was inseparable from these reforms of the system of wage distribution and wage improvement.

IV. Several Questions on the Implementation of Two-Tier Distribution

The present research on the economic reform of the urban areas and the draft of the second step of replacing profits payment with taxation are meant to further solve the question of the relationship between the state and the enterprises. Management, according to different levels, has been proposed in the reform of the system of wages put forth by the authorities concerned. This shows that two-tier distribution has attracted attention. However, there are relevant questions such as the timing of implementation, progress of preparatory work, and obtaining further experiences.

As far as timing is concerned, some people believe it is an urgent question and action should be taken immediately while others hold that it can wait until after having reformed the price system. When the price is irrational, linking the wage with the production results encounters the complicated questions of how to prevent deviations as a result of the various degrees of difficulty in obtaining profits and how to eliminate differences in income as a result of class differences. However, the establishment of a new and rational price system needs appropriate financial power and material backing and cannot be accomplished in one or two years' time. Should we continue to eat from the big pot of rice for a few more years and wait until financial

problems are solved before we reform the wage system, or should we actively create conditions and gradually push forward the wage reform in order to speed up the fundamental turn for the better in the economic situation: The answer is definitely the latter and not the former. Presently, some comrades stress that the consumption fund is out of control, and therefore it is necessary to limit the standard wages, allowances, and promotions; they even want to set a fixed limit on bonuses. If this is done, not only the wages which have been counted in the production cost are liquidated, but it will be hard to link bonuses to the further development of economic returns. According to the regulations of the system of replacing profits payment with taxation, the withdrawal of the bonus funds appropriately depend on the profits achieved, however if the enterprises' decision-making rights in regard to bonus funds are restricted, the bonus funds will become only "cakes in the display window." Regardless of the increase of profit tax of the budget year over the preceding year, the bonus is limited between 2 to 3 months. The bonuses of each worker of the advanced and backward enterprises show a difference of 50 yuan a year, that is about 0.1 to 0.2 yuan each day, the price of a candy. Thus, we will be unable to gradually realize the important policy put forth by Comrade Deng Xiaoping of "allowing certain enterprises and certain workers to become rich first through their arduous efforts." We must realize that without this important policy, we will be unable to reform the urban economic system or make a greater success of it. Therefore, in my opinion, under the premises of making full preparation, trying and actively implementing two-tier distribution within a certain scope is not only practicable but is an urgent objective need. In fact, the second step of replacing profits payment by taxation also involves this question.

When prices and profits are irrational, we can make readjustments by means of stipulating different rations of taxes to profits, taking the level of the net production value of the enterprise in recent years and the standard tax rate as the basis and comparing the potential and the level of advance of similar enterprises. We should have sufficient knowledge of the profits and different incomes of the various trades and enterprises after managing enterprises for decades. Over the last few years, we were, under the conditions of irrational prices, expanding the rights of the enterprises, implementing the economic responsibility system and the system of replacing profits payment with taxation. Reality has proved that these reforms are basically good, not bad. In addition, we have calculated the whole internal pricing system, this is a favorable condition for integrating the second step of replacing profits payment with taxation and trial-implementing two-tier distribution.

The crux of implementing two-tier distribution is strengthening macroeconomic control and making regulations on the rational proportion between the wage and the production and management results. Or from the angle of preventing the consumption funds from getting out of control, since we are passively suppressing consumption and liquidating the bonus, we might as well increase the tax rate of the enterprises, so that the remaining profits will be retained by the enterprises and for distribution among the workers. However, the relationship between the state and the enterprises should better remain unchanged for at least a few years. We should allow the enterprises and workers to eat better after submitting to the state. We should allow the enterprises and workers a free hand to become rich by diligence.

We must make systematic and scientific research into implementing economic indexes which link two-tier distribution to wages. Over the past few years, the main practice was linking bonuses to profit tax, but some enterprises linked bonuses to net production value (the construction industry contracted work in accordance to the amount of work per 100 yuan of wages). Thus, it is a pressing task now to carry out research into the proportion of the net production value among the state, enterprises and the workers in order to link wages to net production value. Since the subjective and objective conditions of the enterprises differ, there are differences in the difficulties they encounter in obtaining net production value and profits. In a situation in which prices are irrational, there are more non-subjective labor factors accounting for the obtaining of the net production value and the profits. The transitional method which can be considered at present is that wages or consumption funds should not be linked to the absolute amount of the net production value for the time being, but that wages and the growth of the net production value should maintain a certain ratio, that is to say, the floating percentage of wages or consumption funds is to be linked to the percentage of growth of the net production value. Thus, although the amount of the net production value of the enterprises does not really reflect the actual labor results, its growth can generally reflect the management results, not being influenced or just being slightly influenced by the differential income due to prices. Some comrades advocate that wages should be linked to profits submitted to the state. This can be considered if the amount of tax submitted to the state truly reflects the enterprises' contributions to the state. In short, since there are differences in the production characteristics and technical advances of the various departments, trades and enterprises, and in a situation in which prices severely deviate from production value, it is impracticable to adopt the unitary method of linking up. Not only can the construction industry implement the system of contracting work in accordance with wages, but other methods can also be considered. For instance, the coal and oil enterprises can also implement the method of linking wages directly to the amount of production.

We say that it is necessary to actively trial-implement two-tier distribution now, but we must also pay full attention to the complexity of the question. We must have great determination and proceed with steady steps. As we are now preparing the implementation of the second step of the system of replacing profits payment with taxation, we must consider simultaneously reforming two-tier distribution as much as possible.

CSO: 4006/694

ECONOMIC DEVELOPMENT ZONES

BRIEFS

JAPANESE INVESTORS IN SHANGHAI--Shanghai, 4 Jul (XINHUA)--A group of Japanese business chiefs arrived here today to study Shanghai's investment conditions. It is the first of 10 such groups from 100 Japanese enterprises to make business study tours of Shanghai, said the Shanghai Trust and Investment Corporation (STIC). A symposium on Shanghai's investment environment was sponsored by Nomura Securities Co Ltd in Tokyo, Osaka and Nagoya in May, when a study group led by Xu Pengfei, STIC general manager, briefed representatives of more than 1,000 Japanese businesses. Many Japanese companies showed interest in launching joint ventures or enterprises funded by themselves in the largest industrial and commercial city in China. There are now more than 50 representatives' offices set up in Shanghai by Japanese banks and companies. Officials here said the study tours, organized by Nomura Securities, would give fresh impetus to economic relations and cooperation between Shanghai and Japan. [Text] [OW042024 Beijing XINHUA in English 1633 GMT 4 Jul 84 OW]

CSO: 4020/168

ECONOMIC PLANNING

DEVELOPMENTAL STRATEGY FOR NORTHWEST, SOUTHWEST OUTLINED

Beijing JINGJI LILUN YU JINGJI GUANLI [ECONOMIC THEORY AND BUSINESS MANAGEMENT] in Chinese No 1, 5 Jan 84 pp 15-19, 62

[Article by Liu Zaixing [0491 0375 5281]: "On the Development of the Northwest and the Southwest"]

[Text] The problem of the development of the Northwest and the Southwest has been included in the agenda for socialist development and has attracted widespread attention. This article will attempt to explore the problem from the angle of the distribution of production.

I. Strategic Decisions in the Distribution of Production

The distribution of production is a problem in socialist development that is comprehensive, long-term and strategically significant. The strategic development direction of China's distribution of production has been to establish a foundation on the seacoast and then to spread production westward in an orderly fashion. The development of the Northwest and Southwest is an important link in this strategy, which is inevitable and practical.

First, we must conform to the objective requirements of the normal laws of the distribution of production. Historical materialism tells us that the first prerequisite of human existence, indeed of all history, is that man "creates history" and that he must be able to survive. In order to survive, man first needs clothing, food, housing and other things. Thus the first activity in history consists of productive life itself. Man's needs increase steadily, and production must likewise expand. Thus productive space must be steadily extended and all natural, social and economic resources must be more extensively drawn into the national economy. Demographic growth, the increase in the number of workers, the improvement of workers' skills and progress in science and technology will facilitate the expansion of production and the extension of productive space. The history of the expansion of society's production may be said simultaneously to be the history of the steady extension of productive space. From the history of the expansion of production and the distribution of production in the world, it is apparent that although the rate of development varies--sometimes it is tortuous or it retrogresses--among different social structures and different stages within a single social structure, the general trend is

toward progress. Accordingly, productive space expands rapidly or slowly, to different degrees, at varying depths and in different sequences and ways; and the spatial agglomeration of the key factors of production becomes progressively more complicated and varied. It is for this reason that human society is able to endure and progress. At the same time, however, economic development becomes unbalanced regionally, which is another global problem. So today a great disparity exists in the economic and technological levels among nations, and there is a great gap between the "rich" and "poor" nations. Even within a single country, much imbalance obtains regionally, creating a distinct difference between developed and underdeveloped regions. These imbalances have caused intense social contradictions and unrest in capitalist countries. Due to historical factors and mistakes in distributing production, economic development among regions in China has also been very unequal. First, there is the economic imbalance between the east and the west (which consists primarily of the Northwest and the Southwest), and the latter remains backward and awaits development. Second there is an imbalance between the geographic distribution of production and natural resources, for the latter are more abundant in the west, while the eastern coast is superior in actual economic technology. Third, the production, supply and marketing of many goods are spatially unbalanced. The production and marketing of the west's abundant energy, nonferrous metals, phosphates and special local products are uneven; production and transport are uncoordinated; and shipping quotas must often be imposed. Areas in the east which desperately need these goods are frequently not supplied in time. These factors all affect to various degrees the rational development of natural and socioeconomic resources throughout the country, the rate of the expansion of national production and economic results. Thus all countries, whether socialist or capitalist, developed or underdeveloped, large or small, have formulated regional developmental policies and programs, have adopted economic and legal measures and have strived to develop backward regions and expand productive space so as to coordinate proportional relationships regionally. Even though there are many differences among these countries' methods of production, concrete conditions and objectives, concrete methods and the actual effectiveness of these countries' regional development policies, there is a common, universal emphasis on the development of backward regions and the expansion of production space, and this emphasis has become a general trend in the development and transformation of the distribution of production in the world. China's decision to develop the Northwest and the Southwest was made consciously and was based on the general laws of distributing production.

Second, we must conform to the requirements of the production distribution laws that are unique to socialism. The laws of the distribution of production are economic laws. In addition to the above general laws, there are also special production distribution laws. If we say that the decentralization, narrowness, self-sufficiency and closed nature of production are the laws that characterize feudal society, which is based on the small-producer economy, and if we say that the widespread development of local specialization, the steady spatial agglomeration--tending toward a worldwide scale--of essential productive factors, the spontaneous concentration of production in regions where profits are highest and the simultaneous rise of developed areas and the stagnation and decline of other areas are characteristic laws of the method of production under capitalism, then the characteristic law of the socialist distribution of production is a

planned proportional distribution of income through essential productive factors so that we can promote coordinated development among all regions and among all sectors within each region, create a general upsurge in national and regional economies and maintain and develop key productive factors. The objective of socialist production is to satisfy the needs of society and the steadily improving material and cultural standard of living of all the people. The socialist economy is a planned economy, and in making the national economy a planned economy, we require not only that all sectors grow in a proportionate and coordinated manner but that all regions in the country likewise develop. Essential productive factors and social labor must be planned and allocated proportionately among both sectors and regions so that the entire national economy will function in a coordinated manner and that economic and other results can be achieved throughout the entire society. These results refer to the dialectical synthesis of the economic results of production distribution and the requirements of politics and national defense, national and local benefits and long-term and short-term benefits. Specifically, these results include:

1. Promoting the rational and effective development of all types of resources in all areas of the country, including the protection of natural resources and the natural environment, the preservation and development of the regenerative capabilities of renewable resources and the comprehensive improvement of workers.
2. Facilitating the full exploitation of the potential and advantages of economic development in all regions and the achievement--under the guidance of a unified, national plan--of mutual development and prosperity and a general upsurge in the national economy.
3. Facilitating a rapid leap toward the levels of advanced nationalities by backward minorities, the steady eradication of economic and cultural backwardness, which is caused by history, in all minority regions and unity among all nationalities.
4. Promoting the improvement of the nation's strategic defense capabilities and strengthening of national defense.

The Northwest and Southwest are vast, possess abundant resources and are inhabited by minority nationalities. Some areas in these regions comprise China's frontier and occupy an important strategic position. Most areas form the nation's hinterland and possess better conditions for strategic defense. Successful development of the Northwest and the Southwest will greatly facilitate achievement of the requirements of the distributional laws unique to socialism.

Third, there are objective possibilities for the successful development of the Northwest and the Southwest. Whether general or special, the laws governing the distribution of production have an objective existence, an inevitability and certain limitations. Conditions in the Northwest and Southwest are not completely understood, but 30-plus years of work since the founding of the People's Republic have clarified at least the following points.

1. Vast area. The two regions have an area of 5.46 million square kilometers, or 56.9 percent of the national total. Of the 30 provinces, municipalities and autonomous regions, 5 have areas of more than 500,000 square kilometers, and 4 of these belong to the Northwest and the Southwest. A large area implies extensive productive space, more room for maneuver in planning productive development and at least the possibility that the contradiction of land usage in developmental projects will be easier to resolve.

2. Abundant resources. The vast Northwest and Southwest have complex topographical and geological conditions and abundant and varied stores of natural resources. Among energy and mineral resources, proven reserves of exploitable waterpower resources, of lithium, nickel and platinum and of mercury, vanadium, titanium, sylvite and asbestos constitute more than 80 percent of the national total; proven reserves of copper, lead, zinc, phosphates and natural gas comprise more than 40 percent of the national total; and those of iron, manganese, bauxite, antimony, tin, molybdenum and sulphur constitute 20 percent. In terms of agricultural raw materials, the two regions' forest reserves and production of rapeseed, sheep wool, goat wool and silkworm cocoons account for approximately 40 percent of the national total; and the regions' tobacco and meat production comprise more than 20 percent. Xinjiang's grapes, sugar beets and long-staple cotton, Sichuan's oranges and tangerines, Sichuan's and Yunnan's sugar cane and other special products from all provinces and autonomous regions also occupy important positions nationally. It should be noted that due to the regions' vast size, there has been insufficient geological exploration, and thus these regions possess a much greater potential than do coastal areas for increasing the proven reserves of many types of mineral resources. Excellent prospects exist, for example, for petroleum, natural gas and coal. The natural environment for agricultural production in the Northwest and the Southwest definitely raises some difficulties. Nevertheless, these regions possess more than one-half of the nation's arable wasteland resources, more than one-third of all afforestable barren mountain and wasteland resources and more than 85 percent of the total grassland area. Thus much potential exists here for the development of "extensive agriculture."

3. Sparse population, backward economic technology and great development potential. The Northwest and the Southwest are vast, underpopulated regions. Their land area comprises 56.8 percent, but their population is only 23.1 percent of the national total. Their population density averages 42.2 people per square kilometer, which is only 40.57 percent of the national average. Xinjiang has only 7.9 people per square kilometer; Qinghai, 5.3, and Xizang, 1.5.

Since the founding of the People's Republic, the nine provinces and autonomous regions in the Northwest and the Southwest have enjoyed annual industrial growth rates that are higher than the national average. Yet, in general, these provinces and regions remain backward in economic technology, as shown in the following table:

Indicator		National average	Percentage of national average
1. Aggregate level			
% of national gross industrial and agricultural output value	14.17		
% of national industrial output value	12.26		
% of national agricultural output value	18.44		
% of national railroad, highway and water transport turnover	7.40		
2. Per-capita value (yuan/person)			
Industrial, agricultural output	460.79	751.84	61.29
Industrial output	275.72	519.76	53.05
Agricultural output	185.07	232.08	79.74
3. Density of output value (10,000 yuan/square km)			
Industry, agriculture	1.94	7.8	24.87
Industry	1.16	5.39	21.52
Agriculture	0.78	2.41	32.37
4. Railroad density (km/10,000 square km)	23.6	54.5	43.3
5. Level of urbanization (city, town population/total population)	10.65	13.92	76.51
6. Labor productivity in state-owned industry (yuan/person)	8,674	11,901	72.88
7. Per-capita value of total retail commodity sales (yuan/person)	169.03	235.89	71.66
8. Ratio of students enrolled in institutions of higher educa- tion (number of students/10,000 population)	10.33	12.84	80.45

The indicators listed in the table reflect the economic and technological backwardness of the Northwest and the Southwest in various sectors. Nevertheless, development over the years, after all, has established a substantial industrial foundation. In state-owned industry, the two regions have a per-capita fixed-asset ratio that is 21.9 percent higher than the national average and their ratio of net value relative to the original value of fixed assets is 2.89 percent higher than the national average. This indicates that workers in these regions enjoy a relatively high level of technical equipment. Yet economic results in these regions are definitely much lower than the national average; the tax rate on fund profits, for example, is only 53.88 percent of the national average. This represents both a problem and a potential. If the output value of fixed assets originally worth 100 yuan can be raised to the national average, the output value of state-owned industry can be increased by 3.5 billion yuan per annum. And if the fund-profit tax rate can be raised to the national average, revenues can be doubled.

Summarizing the analysis of the above three special characteristics, we need only to root our efforts in existing foundations and adopt a correct development strategy to rid the Northwest and the Southwest progressively of backwardness and enable these regions to prosper and develop. If it is said that in the

short and middle terms China's economic development primarily depends on the development of the eastern coast, then in the long run our hopes must ultimately rest with the development of the greater Northwest and the greater Southwest. Now that we have included the development of these two regions in our agenda and are vigorously completing preparatory work, we have thus also provided a far-sighted policy, based on a comprehensive analysis, for the factors conditioning the development of all regions in the country.

II. A Discussion of Development Strategy

Since liberation and especially during the 10-odd years since the beginning of the Third 5-Year Plan, a substantial proportion of total investment in the national economy has been directed toward Shaanxi, Gansu, Ningxia and Qinghai in the Northwest and Sichuan, Yunnan and Guizhou in the Southwest. This, in fact, marks the prelude to the development of the two regions. In the process, however, we have been overly ambitious and have lacked a resolute and correct development strategy and a thorough, comprehensive plan. Consequently, many complications have arisen, the economic results of development have been affected and we have not achieved the proper results from expanding productive space and transforming the distribution of production throughout the country. Thus the correct strategic direction requires the guarantees of correct development strategy and measures. Economic results should be the starting and end points of development strategy.

In accordance with previous experience and with reference to some measures employed abroad to develop backward regions, we wish to direct attention to the following points:

First, we must have comprehensive development, establish a rational industrial structure and promote benign cycles in the national economy and the ecosystem. The backwardness of underdeveloped regions is due primarily to the irrationality of the industrial structure. Thus, to develop backward regions, we must greatly stress the rationalization of that structure. In her postwar regional development, Japan for a long time placed exclusive emphasis on an overdeveloped industry, which caused ecological damage, directly influenced agricultural development and had an adverse effect on the healthy growth of backward regions. Italy, in her development of the south during the early 1950's, exclusively stressed agriculture, devoting the bulk of her investment to that sector and only 7 percent to industry. This experience proved that without the support of a strong modern industry, agricultural development would be difficult and would also be hard fundamentally to alter regional backwardness. In the mid-1950's, emphasis thus was shifted to industrial development, and the ratio of investment in industry was increased. Thereafter, however, this emphasis became excessive, there was very little investment in agriculture, agricultural and industrial development as uncoordinated and industrial development was thus hampered. In China's three-line development, we have also tended to over-emphasize industry over agriculture and heavy over light industry, and within a short period of time the ratio of heavy industry was increased excessively rapidly and many areas, especially in Gansu, Qinghai and Ningxia, had very weak industrial bases. This irrational structure produced many problems, such as low returns on investment; tight supplies of agricultural, sideline industry and

light industrial goods and textiles; and shortages of local revenues. And though an industrial foundation has been successfully established, poverty has not been reduced very much, the people have received few material benefits and the structure was seriously buffeted during readjustment. Between 1978 and 1981, four provinces and autonomous regions experienced negative industrial growth rates; all of these units were in the Northwest and the Southwest. It is apparent that in regions undergoing long-term economic development, excessive and overly rapid expansion of heavy industry cannot promote sustained and stable economic growth. Rather, measures must be tailored to suit local conditions; we must start with a rational development of land resources and by increasing the utilization rate and effectiveness of each type of land and use agriculture to promote light industry and the latter to nurture heavy industry, thereby building a foundation. Many parts of the vast grasslands in the Northwest and the Southwest are suited to afforestation, and there is much potential for the development of "extensive agriculture." While stressing plains, basins, oases and agricultural production bases, we must also persist in making herding primary and in closely integrating herding with agriculture and forestry in the broad herding districts, in the zones in which agriculture and herding are intermixed and in the transitional zones between areas suited to afforestation and those suited to cultivation. In hilly and mountainous areas, we should make forestry primary; rationally plan forestry, herding and agricultural production; and make special efforts to plant grass and trees so as to preserve the land, the mountains and water, to create a benign cycle in agriculture and to generate conditions conducive to the development of light industry. By rooting ourselves in local resources, establishing bases for the comprehensive development of agriculture and industry and developing key light and textile industries and products (such as woolens, leather goods, dairy and wood products, refined sugar, canned foods, cigarettes and paper), we can promote in turn the development of agricultural and natural resources, strengthen agriculture as a foundation, accelerate improvement in the people's standard of living, accumulate funds for the development of heavy industry and open up markets. This type of economic cycle is even more effective in transforming regional backwardness and is the only way to invigorate the local economy during development and to transform poverty into wealth.

In view of the need for regional specialization and of the specific conditions in the Northwest and the Southwest, the development and exploitation of the sources in which these two regions enjoy advantages form a strategic undertaking that will spur economic growth. Nevertheless, we must eschew the previous practice of having a single department develop a single resource and devote ourselves instead of organizing related departments and using interregional and interdepartmental forms to effect comprehensive resource development. And we must change from single- to comprehensive-resource development. On this basis, we can coordinate the development of mining, raw materials and manufacturing and create numerous specialized, integrated units of local production. The Northwest and the Southwest possess many reserves and many types of energy and mineral resources, and the spatial grouping of these resources is fairly ideal. Areas that have concentrations of large hydroelectric or coal resources or access thereto also possess abundant and varied nonferrous metal and other

resources that are in short supply in the nation's chemical industry as well as special conditions conducive to the establishment of integrated production bases consisting of energy industries and industries consuming large amounts of energy, such as hydroelectric-vanadium and titanium-steel bases; hydroelectric-aluminum bases; hydroelectric-nickel, platinum metal and copper bases; hydroelectric-aluminum and zinc bases; hydroelectric-ferroalloy-special steel bases; hydroelectric-concentrated and superconcentrated phosphate fertilizer bases; coal-thermal electricity and coal-chemical industry bases; petroleum-natural gas-petrochemical bases; and, within the major local electrical grids and based on well- and lake-salt manufacturing, integrated organic and inorganic chemical industry bases, potash fertilizer bases and the like.

Compared to the single-product development and long-distance export of energy and minerals, this type of comprehensive resource utilization provides much greater economic results for enterprises. And these industries and their downstream industries directly serve regional agricultural and light-industrial markets; spur the comprehensive development of regional economies; play a significant role in mitigating national energy shortages, eradicating weak links in the national economy and improving productivity throughout society; and form a strategic link in raising the Northwest and the Southwest into the ranks of the advanced regions.

Second, education must progress first, and we must stress transfers of advanced technology from developed regions. Emphasizing the intellectual development of backward areas and making this development progress first is one of the basic conditions for raising backward regions into the ranks of the advanced. Since the 1940's, the South of the United States has developed to a large degree because of the rise of new industries employing the most sophisticated advanced technology. Japan is now stressing regional development and the establishment of small- and medium-size "technology-intensive cities." And China in recent years has inaugurated interregional and interdepartmental technical coordination and has made technical transfers an important component of this work. These transfers, which have achieved a certain amount of success, include those from coastal areas to the interior and intraregional transfers of advanced technology from the defense industry to local civilian industry. Nevertheless, the level of scientific, technical cultural and educational development in the Northwest and the Southwest remains very low, current scientific and technological capacity is insufficient and this situation does not meet the needs of current production and falls even more short of the needs of the tremendous and complex development tasks of the future. Such areas as Shanghai, Jiangsu and Zhejiang lack the proper resources for industrial development. Yet these areas enjoy excellent economic results, primarily because the cultural quality of these areas' workers is good, these areas are strong in science and technology, there are many skilled workers and the level of management is high. Conversely, although Sichuan, Yunnan, Guizhou, Shaanxi, Gansu, Qinghai and Ningxia possess as much, or in some cases even more, technical equipment as coastal regions, yet these provinces have lower economic results. One reason for this inferior performance is that workers' cultural levels are lower in these provinces, the provinces lack experience in running modern enterprises and the quality of workers is not coordinated spatially with the implements of production and the objects of labor. The improvement of the quality of labor, technology and management is rooted in education. Technological transfers alone are insufficient. The most fundamental method is to view the matter on a national scope, to adapt to the general

distribution of production, to readjust the distribution of cultural and educational undertakings and of research agencies in a planned and sequential fashion, to open all avenues for talent, to promote the growth of local technical strength and to prepare conditions for the shift of production westward and for progress in the Northwest and the Southwest. Raising workers' educational levels and improving technical capabilities will take a long time. Thus we must plan this work in advance and allow it to take precedence.

Third, one good experience in developing backward regions is to emphasize the establishment of infrastructures and installations, primarily those of communications and transport, and to create the necessary economic environment for the development of industry and agriculture. In the United States, large-scale water transport and railroads paved the way for the development of the Northeast and the subsequent westward shift of production. In planning the development of its backward regions, Japan established large, medium and small development nuclei and gave priority to the creation of a communications system to interlink these nuclei and connect them with older bases. In China's three-line development, the Panzhihua Steel Base and the Western Guizhou Coal Base, whose performances were directly related to the completion of the Chengdu-Kunming and Guiyang-Kunming Railroads, both proved successful. The shortage of transport capacity is a limiting factor nationally and forms an even more pronounced weak link in the Northwest and the Southwest. Thus, while the establishment of coal bases and transport lines is being stressed, we should also add to our agenda the construction of developmental railroads in the two regions. Transport is the vanguard of the national economy. If transport construction continues to lag behind industry, we shall have to keep supplementing the carrying capacity when it is tight and solving problems as they crop up. Thus transport will remain at the rear and always be passive. Moreover, the transport industry is unique in that production and consumption are combined as one, beginning and ending simultaneously. Tons per kilometer are units that cannot be stored, supplied at will or transferred and thus are unlike industrial or agricultural products, which can be shipped in from other regions to make up for local shortages. This characteristic necessitates the maintenance of a certain amount of excess transport capacity to meet sudden shortages. In this respect, without reserve capacity, transport cannot take the lead and seize the initiative. Thus the distribution of transportation and production must be planned together, and an appropriate lead time for railroad construction must be determined based on the construction period thereof.

Fourth, we must start with surveys and initiate zoning and regional planning. To date, China still lacks a national, multilevel system of economic zoning, and there is no consensus on how economic zoning can be initiated. Still, economic zones exist objectively. Thus in terms of natural conditions, natural resources, the characteristics of historical development, position in regional specialization and the economic relations formed by history, the Northwest and the Southwest potentially may become two distinct economic zones. We must conduct more surveys to ascertain conditions further in these two regions, link these regions into the strategic development of the distribution of national production, determine these regions' developmental direction, formulate initial development objectives and steps and basic development policies for these regions,

suggest ideas for major construction and control projects and the distribution of production for these regions for the next 10, 20 and 30 years and, on these bases, formulate an appropriate, concrete regional plan. Besides temporal progress conceived in terms of 5-, 10-, 20- and 30-year plans, regional economic development must also include planning for the rational area distribution of enterprise and urban systems so as to arrange productive forces rationally, determine the size and functions of cities and ensure that economic development proceeds smoothly and in proper sequence. During the three-line development, conditions were not clarified, and projects were initiated hastily. Thus both the Northwest and the Southwest never conducted unified planning and comprehensive balancing on regional scales; local planning was not conducted for the establishment of key districts; and scientific local and urban planning was not employed as a basis for site selection in some major factory construction projects, the establishment of new industrial zones, the relocation of old cities, the construction of new towns and cities, the main components of construction projects, infrastructures and installations of construction projects, auxiliary construction projects and agricultural development in surrounding areas. Instead, each department, enterprise, locality and site lacked an overall point of view, administered everything itself and worked blindly. This caused chaotic distribution, poor economic results and many lingering problems. To prevent these mistakes from happening again, we must stress economic zoning and regional planning as the bases of regional development. The establishment of a rational industrial structure, the precedence of education and the construction of transport and infrastructures can be progressively and in an orderly manner implemented only when integrated within economic zones throughout the country.

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ECONOMIC PLANNING

LIAO JILI DISCUSSES REFORM OF ECONOMIC SYSTEM

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[Article by Liao Jil: "Discussing Several Questions Concerning the Reform of the Economic System"]

[Text] Since the 3d Plenary Session of the 11th CPC Central Committee, great achievements have been made in the reform of the economic system in our country. However, the development is not balanced. The pace of reform in the cities cannot meet the needs of the development of the situation. In order to quicken the steps in the reform of cities, it is necessary to further emancipate the mind and, in combination with the practice in reform, to probe into some important problems involving the orientation of the current reform.

Planned Economy and Commodity Production

Ours is a socialist country, and it cannot be doubted that planned economy should be practiced on the basis of the system of public ownership. Planned economy, as an economic system reflecting the socialization of production, has to be in line with the development level of the productive forces in different stages. According to the original ideas of Marx and Engels, socialist planned economy should be that the society possesses the whole means of production, the relationship between commodity and currency has withered away, personal labor directly constitutes a component part of the total social labor, and planned economy in terms of the production and the distribution of products should be practiced. However, the development of history is much more complicated than they envisaged at that time. In those countries where the victory of the socialist revolution has been achieved, generally speaking, there exist multiple economic elements and multiple operation modes with the state-run economy as the main basis, and commodity production and commodity exchange also exist. Furthermore, encouraging the development of multiple economic elements and multiple operation modes and actively making use of the relationship between commodity and currency have become the central topics in economic reforms of these countries. This fully demonstrates that it is impossible to attempt to effect a direct transition from a self-sufficient or semi-self-sufficient commodity economy, or from a not very developed commodity economy, to the communist commodity economy, and there must be a period in between in which the socialist commodity production achieves great development.

China was originally a country with very backward commodity production in which the natural economy occupied a leading position. After liberation, during the period of the national economy's rehabilitation and the initial period of the First 5-Year Plan, multiple economic elements coexisted, and commodity production and commodity exchange developed rapidly. Later, the structure of the system of ownership and the mode of operation gradually became unified, commodity production was greatly restrained, and economic life became more and more tinged with the production and distribution of products. Thus, in planned management, the role of the law of value was inhibited, and the requisite market readjustment was negated, seriously affecting the development of the national economy, with the result that it became hard for the labor force to find employment, it was difficult to develop specialized coordination, capital and accumulation were seriously restrained, and there were many contradictions that were hard to overcome.

In our country, the failure to attach importance to commodity production and commodity exchange and the eagerness to practice production and distribution of products had theoretical grounds and historical sources. First, Stalin held that the socialist economy should be a planned economy with the production of products as the main basis, and he emphasized that the means of production was not commodity, and that the law of value did not play a role in readjusting production. In the initial period of the 1950's when planned economy was established in our country, it was conducted after the model of the USSR and was based on Stalin's theory. Second, in the past, all the industries and commerce in the liberated areas and in the base areas were subsidiary to the local governments and troops in meeting the needs of the revolutionary war, with the character of a supply system. After the whole country was liberated, both our state-run enterprises and the large collective enterprises were "official-managed." With respect to distribution, the traditional influence of the supply system was still being felt. At the same time, the policy of all-round employment was adopted toward the unemployed in society, which gradually evolved into the system of eating "from the same big pot." And third, for many years, high speed in economic construction was unrealistically sought after in a one-sided manner, and the scale of capital construction was excessively expanded, so that the supply of the important means of production was constantly in a state of strain, thereby greatly strengthening the trend of centralized distribution of products.

Both the positive and the negative experiences in the past 30-odd years have proved that restraint commodity production development and eagerness for the transition to product production violate the requirements in developing the social productive forces and do not conform to the reality of our country. If we want to realize the modernization program, it is necessary for us to make up the missed lesson of developing commodity production and commodity exchange under the socialist system. This decides that our planned economy at the present stage can only be a planned economy with the state-run economy as the leading factor and the coexistence of multiple economic elements, and under the condition of actively developing our commodity production and commodity exchange.

In our country, will the development of commodity production under the system of public ownership lead to capitalism? The answer is no. The case is of a completely different nature. The exchange of commodities existed as early as the later period of the primitive society, and the emergence of the capitalist relations of production occurred rather belatedly. It was formed under the condition that the fundamental means of production was grasped by the capitalist class, the workers had nothing of their own, the labor force became a kind of commodity, and the system of wage labor came into being. And the victory of the socialist revolution and the establishment of the system of public ownership of the means of production made the people the masters of society; labor was no longer a commodity, and the principle of distribution according to work was implemented, thus radically eliminating the historical condition for developing capitalism. The socialist commodity production and commodity exchange are no longer in a state of anarchy, but are conducted according to plans, thereby forming a component part of the socialist planned economy. The development of commodity production on the basis of the system of public ownership will further strengthen socialism instead of weakening it. This has been fully proved by the practice both at home and abroad.

Departments, Regions and Central Cities

There must be a unified and open socialist market so as to uphold planned economy and develop commodity production. Here the term "market" should not be interpreted in a narrow sense as a market place for trading consumer goods, but should refer to the two large categories in social reproduction--exchange and circulation. This is bound to involve another great problem in our economic system, that is, the relations between the central cities and the departments and regions at different levels.

The socialist state has two kinds of management functions: One is the administrative management function, and the other is the economic management function. The "departments and regions at different levels" also fall into two categories. The first category is the "departments and regions at different levels" in terms of administrative management. That is, in accordance with the administrative system and administrative division of departments and regions, orders are issued from the top to the bottom level by level, in order to organize and manage the social activities. What is emphasized is longitudinal connections and administrative relations, in the form of a vertical structure. The second category is the "departments and regions at different levels" in terms of economic management. That is, in accordance with the inherent association in terms of economic interests and economic life, economic activities are organized through the employment of economic means, and most of these activities are lateral economic connections, in a form of network structure. In the past, we used administrative management in these departments and regions instead of using economic management. If management is conducted according to the system of departments, the lateral connections between different departments and between departments and regions are severed; and if management is conducted according to the system of regions, the lateral connections between different regions and between regions and departments are severed. This system of separation and blockade prevents us from organizing the socialized general production according to the principle of rationality of economy, makes it hard to form a unified and open socialist

market, and is very unfavorable to enhancing social economic results and satisfying the needs of the people's livelihood.

Since the economic management of the "departments and regions at different levels" is not separated but is closely integrated, where does this point of integration lie? It is not in the departments, and nor in the regions, but in the cities. This is determined by the economic characteristics of cities. Historically, cities were the product of the development of commodity production and commodity exchange when they had evolved to a certain stage. And today, cities have become the centers, within certain areas, of production, circulation, technology, education, finance, information and service. Bringing into play the role of cities in organizing economy is beneficial to the realization of the close integration of the departments and regions at different levels, and is in keeping with the inherent requirements of the laws of economics. Therefore, the cities should be used as a most important intermediate link in the organization and management system of the national economy.

In order to give play to the role of cities, particularly the role of the central cities, it is necessary to change the system of concentrating most of the economic management power in the hands of the departments and regions as practiced in the past, that is, the departments and regions should delegate their power and streamline their administration. In the first place, generally the departments and regions should no longer administer the enterprises directly (with the exception of a few departments, such as railways, civil aviation, post and telecommunications, and electric power), and the enterprises should be coordinated and administered by the local city authorities. With regard to the very small number of large-scale key enterprises which have a specially high degree of socialization, with their products catering to the needs of the whole country, and which are not suitable for management under a single city, they may be administered by a comprehensive department of the state, but they should still accept the coordination carried out by the city authorities. From a long-term point of view, it is not suitable for the departments and regions to directly administer the distribution and transfer of materials, and the majority of materials should go through market channels, to be freely selected and purchased by enterprises.

As for the various departments at the central level, after they have streamlined administration and delegated power, their daily routine workload will be greatly reduced. Thus, they will be able to use their main energy in strengthening the macrodecisionmaking, and in conducting trade planning, technological guidance, and information service. At the same time, it will also be possible to readjust and integrate various professional departments which were originally classified on the basis of products, so that they can develop themselves into comprehensive departments which will better suit the new situation of strengthening the macroeconomic management, enlivening enterprises, and realizing a comprehensive development of modern science and technology. Similarly, various regions will no longer intervene in the production and marketing activities of enterprises, so that they can use their time to do a good job in making regional plans, carrying out local construction, and inspecting and supervising the conditions of local economic units in the implementation of the state's plans, policies and regulations. In this way, the administrative and economic management organs of the regions can also be readjusted and streamlined on a large scale.

When we emphasize bringing into play the role of cities, it does not follow that we should transfer intact all the original power and methods of management of the departments and regions to the cities. The expansion of the city's leadership over the countries does not confine itself to the expansion of the administrative areas, for doing so will entail the formation of new "rigid regional blocks." The cities must not stick to old conventions and should take a new path of managing the economy in accordance with the inherent relations of economy and with economic means as the main approach. In addition, the functions of cities are mainly "planning, guidance, coordination, service and supervision," and not the practice of concretely intervening in the enterprises' production, supply and marketing, or their personnel, finance and materials. Therefore, the same problem of streamlining administration and delegating power still exists for the city authorities, and they should delegate to the enterprises the power which should be delegated. It is essential that the comrades working in cities should have a clear understanding that the power which we intend to expand is not the power of the administrative management of the cities, but the power of organizing and coordinating the economy. The purpose of enlivening the city is to enliven the enterprises in a more constructive manner, fully tap the great potential of the enterprises, and invigorate the enterprises. This is the basis for improving the strength of the city economy and bringing into play the role of the city as the center of economy.

Planned Readjustment and Market Mechanism

Planned economy, as an advanced and comprehensive economic system, has a great variety of modes of readjustment and means of readjustment. But these modes and means can be summarized into two aspects: One is the readjustment of plans, such as decisionmaking on plans, balance of plans, setting out plan objectives, and so on; the other is market mechanism, that is, where the law of value plays the role of readjustment through various kinds of economic levers.

In the socialist planned economy, planning and market mechanism have different modes, scopes and key points in their functioning, and they complement each other. The readjustment of plans has a direct and compulsory nature and its tasks are mainly to solve the problem of balance between the general supply and the general demand of society, to solve the problem of objectives for development and of major relationships concerning proportion, to solve the problem of the deployment of the productive forces, to solve the problem of policy on investment and the key points in construction, and so on. All these things are the skills and strong points of the readjustment of plans, which are often inaccessible to the market mechanism. It is because the solution of these problems needs the mastery of the all-round information of economy, science and technology, and society, both at home and abroad, in the interests of the entire society, which is only attainable by socialist countries. Furthermore, this aim can only be achieved through the formulation of a unified state plan, and it is impossible for any single department or region to attain this objective. The role of readjustment of market mechanism is realized indirectly through regulating the relations of economic interests. Its tasks consist mainly of tackling problems of linking the production, supply and marketing of tens of thousands of commodities, the quality of various types

and varieties of commodities, the technological transformation of enterprises, economic cooperation, operations and management, and so on. Here lies its strong points, while it is often difficult for the unified plan to accomplish such tasks. This is because under the condition of modern socialized general production, the economic links are highly complicated, and there are great differences in people's needs, which vary with the times. If production is carried out according to plans, it will be impossible to react sensitively to rapidly changing social needs, which is harmful to the efforts to meet the consumption needs of the masses. In this respect, market mechanism is much more flexible. It cannot only promote the enterprises to orient their activities toward the market and the consumers' needs and to develop new varieties, but also prompt the producers to strive to attain the greatest possible output with the smallest possible input, thereby enhancing the social economic results.

From the above, it can be seen that planning and market mechanism are two principal means of readjustment in the socialist planned economy. The two complement each other, but they cannot replace each other. Arbitrarily using planning targets to replace the role of readjustment of market mechanism, or arbitrarily using market mechanism to replace the role of unified plans, will be to no avail. The plan coordinates the market, and the market regulates the plan. Each plays its own role and performs its main tasks. The combination of these two aspects will constitute a complete socialist system of economic management at the present stage.

Since the main task of a plan is to solve the macroeconomic problem, then it should manage the major things well and loosen its control over the small matters. If a plan makes no distinction between the major aspects and the minor aspects, it will become increasingly complicated, with the result that it will deviate from the practice. It is reported that the planned targets in a socialist country amount to as much as 20 million, but its problem of production being out of line with demand has not been resolved, which strongly proves the correctness of the above exposition. At present, the scope of our directive plans is still too wide, and the number of our targets is too large, and decrease in these respects is needed. Through planning and policies, the major things will be well managed, and the major outlines will be set. On this basis, other economic activities can be allowed to follow their own course and to be regulated by market mechanism within the extent permitted by our planning and policies. Such a practice may cause temporary and local imbalance, but it is not something to be afraid of, because the changes of relations of supply and demand in markets will entail the readjustment of economic levers such as prices, so that the producers and the consumers can dynamically react to these changes and coordinate with each other on which will facilitate the solution of contradictions in the course of movement. Only when the functional role of market regulation becomes abnormal, resulting in the excessive expansion of the imbalance, will it be necessary for the administrative departments at the higher levels to adopt measures of intervention to rectify the situation.

It is essential to point out that both planning and market should center on a common objective, that is, satisfying as much as possible the needs of the people's livelihood. It is necessary to oppose those one-sided views and measures such as paying sole attention to speed without due regard to economic results, paying sole attention to construction without due regard to people's livelihood, and paying sole attention to planning without due regard to market needs.

In order to integrate planning with market mechanism organically so as to solve the problem of linking the microeconomy, there should be a great reform in the formulation of plans. In particular, the formulation and implementation of the long-term plans and 5-year plans should be differentiated from the formulation of the annual plans. The long-term plans and 5-year plans, proceeding from the long-range interests of the country, emphasize the solution of the strategic targets of the social economic development. Thus, the official plans should be relayed from the upper levels to the lower levels, so as to guide the entire national economy to advance toward the set targets. On the other hand, the annual plans lay emphasis on solving the problem of the current needs of society, and the formulation of plans should be conducted from the lower levels to the upper levels with the main emphasis on the market needs. These plans should be formulated by the enterprises themselves with economic contracts as the basis, realizing the linking and balance between production and marketing through the lateral connections of the market, and the state should not impose too much intervention on these activities. With regard to a small number of products which the state needs to control, the form of orders planned with the enterprises by the state with preferential treatment in processing may be adopted, and every enterprise has the obligation to ensure the fulfillment of the tasks assigned. In short, the major task of the state is to formulate the long- and medium-term plans well, and the major task of the enterprises is to map out the annual plans well. There is a new and important problem of reform needed in the socialist planned management. If this problem is well solved, it will be possible to bring into better play the role of planning, which will greatly promote the development of the national economy.

CSO: 4006/695

FINANCE AND BANKING

BANK OF CHINA NANNING BRANCH ABSORBS FOREIGN CAPITAL

HK090635 Nanning Guangxi Regional Service in Mandarin 1130 GMT 8 Aug 84

[Text] Giving full play to its reputation in the international money market, the Nanning Branch of the Bank of China vigorously absorbed foreign capital to support the region's economic construction. In order to speed up the development of the plastic machine-building industry, on 1 August, the Nanning Branch of the Bank of China made an investment of \$1 million, through the trust department of the Liuzhou Subbranch of the Bank of China, in the Liuzhou Plastic Machine-Building Plant and formed a partnership to produce and market plastic injectors. This trust investment will be used mainly in importing advanced equipment and key components from Japan, the Federal Republic of Germany, and the United States, and the plant will produce plastic injectors with the advanced world levels of the 1980's so as to meet the demands of domestic and foreign markets.

The Nanning Branch of the Bank of China and the trust departments of its sub-branches also invested about \$3 million in such units as the Guilin Rongcheng Restaurant and the Nanning No 8 Radio Factory in the form of cooperative operation. In the near future, they will also make an investment of \$30 million in the three joint ventures using Chinese and foreign investment in Nanning and Guilin cities and Wuzhou Prefecture so as to quicken the construction of these joint ventures. It is reported that the General Branch of the Bank of China has approved the establishment of the Trust Investment Company of the Nanning Branch of the Bank of China and when the company is set up, it will serve the region's medium-sized and small enterprises which use foreign capital to accelerate their technical transformation in such forms as trust investment, international bills, and fund service.

CSO: 4006/693

INDUSTRY

'MARKED IMPROVEMENT' MADE IN TV QUALITY

OW061401 Beijing XINHUA in English 0902 GMT 6 Aug 84

[Text] Beijing, 6 Aug (XINHUA)--The quality of China's black-and-white television sets has shown a marked improvement in the past year, according to the results of a nine-month long national reliability trial which ended on Sunday.

Today's ECONOMIC DAILY reported that the trial for 14-inch and 17-inch television sets held in Shenyang, northeast China, showed the average trouble-free working-time of 15,000 entries from 31 enterprises in 15 provinces was 3,000 hours, compared with last year's 1,000 hours. The trouble-free period for five models reached 12,000 hours. At the same time, tests on 12 items for international safety standards showed that all the entrants passed the tests of markings, anti-harmful radiation, temperature and switches, and 80 percent of the 18 first prize winners of the 14-inch integrated circuit televisions scored full marks on all items. The maximum power consumption for more than 10 different models was under 22 watts. Marked improvements had also been made in appearance, structure and technological design and in the quality of picture and acoustics.

Almost three-quarters of the entries won prizes.

Big improvements were recorded for TV sets made in Jiangsu and Liaoning provinces and Beijing. The "Peacock" brand TV made by the Suzhou Television plant in Jiangsu won three first prizes.

CSO: 4010/126

INDUSTRY

BRIEFS

URBAN, RURAL INDUSTRIES COORDINATED--Shanghai, 30 Jul (XINHUA)--Shanghai, China's biggest industrial center, set up a special group today to coordinate the operations of its rural and urban industries. According to the local authorities, the group will help bring industries in urban and rural Shanghai into a general orbit of planned development in harmony with actual conditions. It will work out measures encouraging enterprises and research institutes in the city to start joint management projects with and transfer technology to the outlying areas of Shanghai. There are now more than 6,300 industrial enterprises scattered in the suburbs of Shanghai, employing about one million workers. Their combined industrial output value last year was '66 billion [as printed] yuan. The latest move taken by the municipal government is seen here as an important measure to maintain the steady growth of the local economy. In developing its rural industries, Mayor Wang Daohan said today, Shanghai is giving priority to light industries such as textiles, foodstuffs, animal feed, and building materials, as well as those which produce urgently needed consumer goods which large industrial enterprises have failed to handle. [Text]
[OW302054 Beijing XINHUA in English 1431 GMT 30 Jul 84]

CSO: 4020/162

CONSTRUCTION

BRIEFS

SHANGHAI BUILDS PUBLIC FACILITIES--Shanghai, 30 Jul (XINHUA)--Shanghai has stepped up construction of public works to benefit its residents, according to the municipal people's government. Construction of 120,000 apartments began in the first half of 1984, up 19.9 percent over the same period in 1983. Work was completed on 13,200 apartments, a rise of 15.7 percent. Of the 10 pedestrian and railway overpasses planned this year, two have already been completed while the remainder will be opened later this year. Power supplies will also be improved by six substations which will go into operation from August, this year. Equipment installation is under way at a new plant to treat 75,000 tons of waste water daily, and a project to provide cooking gas to 60,000 more families and tap water to 30,000 households is half completed. Daily milk supplies grew to 800,000 bottles in the first 6 months of 1984 as against 570,000 bottles last year. Supplies of freshwater fish and vegetables also improved. One more stereo f.m. radio channel is to begin services before October 1. Of the three new cinemas and six parks to be built or enlarged this year, one cinema and three parks have already been opened. [Text] [OW301154 Beijing XINHUA in English 1054 GMT 30 Jul 84]

FIRST URBAN HOUSING SURVEY--Kunming, 30 Jul (XINHUA)--China's first urban housing survey will begin later this year, according to a national conference on city development that closed here today. Scheduled for completion by the end of June 1986, the survey will cover the amount, quality and utilization of houses in 289 cities, more than 3,000 county towns and all industrial and mining areas. China has an urban population of 150 million. The survey will help planners draw up economic and social development schemes and make more rational use of urban land. It will be conducted by the Ministry of Urban and Rural Construction and Environmental Protection, and the State Statistical Bureau. [Text] [OW301040 Beijing XINHUA in English 1032 GMT 30 Jul 84]

CSO: 4020/162

DOMESTIC TRADE

JOURNAL INTRODUCES CHONGQING TRADE CENTER

HK270545 Beijing JINGJI YANJIU in Chinese No 6, 20 Jun 84 pp 32-34

[April 1984 article by First Commercial Bureau of Chongqing: "A Good Reform in the System of Wholesale Trade--The Trade Center of Manufactured Goods in Chongqing"]

[Text] We have considered reform in the system of wholesale trade as representing a breakthrough in the current reform of the circulation system, with "unblocking and enlivening" as the goal. And it is for this purpose that the Trade Center of Manufactured Goods was opened on an experimental basis in January this year. Experience in the past 2 months has proved that this center has effectively regulated by the market mechanism and broken away from the closed circulation system characterized by many links. Therefore this move represents a good form for reforming the existing wholesale trade system.

I. Reasons for the Formation of the Trade Center

The present circulation system faced pressure from two aspects. First, following the tremendous development of agricultural production and the constantly increasing commodity rate of agricultural and sideline products, the wide rural areas need increasing volumes of industrial products. Second, due to reorganization and reform, industrial production has increased considerably and consequently it needs a trade center so as to enable industrial products to enter into the consumer sector from the circulation sector as quickly as possible. And the first sector to feel the pressure is wholesale trade, which represents the first link that receives the products, guides retail business, controls the sources of goods, and regulates demand and supply. It is the heart of commerce as well as the key link of the circulation network. Wholesale trade determines the circulation of commodities and the whole market situation.

After the founding of the PRC, the system of wholesale trade was based on the model of the Soviet Union. Although certain reforms have been made over the past few years in breaking away from monopoly, opening up circulation channels, adding more methods of selling and cutting down circulation links, the system of wholesale trade is yet to be basically changed. It is because the present system is still characterized by the formation of wholesale organs on the basis of administrative regions, divided into various levels, and has repetitious organs that block each other. According to the present system, commodities are

still distributed on the basis of wholesale enterprises at various levels and retail enterprises. The result of this practice is that there are many links, circulation is slow, expenses are high, and economic results are low. This situation has also resulted in the fact that while certain commodities are stockpiled in some places, they are in short supply in some other places. In addition, with regard to business ideology and management, the bureaucratism of "unifying the whole and waiting for consumers to come" has been difficult to overcome, and wholesale departments deal with the changed market situation with the same methods used to distribute commodities in tight supply. These departments have failed to adapt themselves to the new situation. Such an inflexible circulation system has restricted state commercial departments in taking part in regulating by the market mechanism, made the relationship between industry and commerce, agriculture and commerce, and between commercial departments themselves even more tense, and affected the development of the production and exchange of commodities.

The objective situation demands drastic change to the existing circulation system. The previous measures that have been taken just to slightly change the various levels in such aspects as centralization and decentralization are hopeless. Therefore, it is necessary to find a new way for reform that should be carried out in a determined way so as to make a breakthrough. It is with this purpose that we have trial run the trade center for manufactured goods.

II. The Method Used by the Trade Center

The guiding ideology for the trade center is to "unblock and enliven." That is to say, under the guidance of state planning, we have resorted to the law of value and fully displayed the role of regulation by the market mechanism. The purpose of these measures is to turn the trade center into a front for state wholesale trade to actively take part in regulation by the market mechanism and a center for a rural and urban commodity network so as to promote the formation and development of the economic region.

The tasks of the trade center include: 1. To trade manufactured goods from the whole city and country all year round. 2. To act as sales and processing agent, storing and transporting agent, and process according to orders. 3. To hold various commodity sales exhibitions and fairs for ordering and regulating goods and other trade fairs. 4. To carry out leading activities. 5. To collect and provide economic data for clients. 6. To create conditions for carrying out commodity transactions with overseas Chinese and foreign businessmen.

With regard to business management, we have made full use of the market system to replace the past form of distributing goods through large-scale fairs, coupled with daily regulation and exchange of goods. We aim at breaking away from regional and trades barriers. In order to attain this goal, the trade center welcomes all the related units in this province and other provinces, the units with ownership by the whole people, collective units, and individuals as well specialized households from rural areas to conclude transactions, including bulk and small wholesale as well as taking delivery of goods by pieces or by packages for distribution among buyers. The method of fixed allocation pricing and pricing on the basis of the administrative levels of customers (the name of the units) are contradictory to the law of value and have been replaced by wholesale prices.

With regard to organizational form, we have formed an economic united body that is composed of seven specialized companies (centers) of general merchandise, textile products, knitwear, metals, alternate current appliances, industrial chemical products, and storage and transportation under the First Commercial Bureau. This body has introduced the manager responsibility system under the leadership of the board of directors, with the deputy bureau director taking the post of chairman. And each of these seven units has sent a manager as director of the united body while the managers and deputy managers of this body are appointed by the board of directors. A business office has been set up under the principle of streamlining organization, coupled with the appointment of certain professional staff.

With regard to the distribution of profits, all the participating units of the united body have followed the principle of "equally sharing profit and jointly taking risks" and this means that all share the retained profits and they are all responsible for losses. The enterprise profit retention is distributed according to the proportion of "5, 3 and 2." This means that 50 percent of profits is for the trade center development fund; 30 percent is distributed among the participating units on the basis of the profits made by the related commodity departments; and the other 20 percent profit is for workers and staff members collective welfare and bonus fund. Losses made by departments are covered by the participating units.

The trade center is housed in a 10,000 square meter warehouse in Chaotianmen district that has been simply fitted up. This building houses the seven commodity departments. At present, a total of 342 factories have taken part in the commodity exhibition held by the trade center, with more than 30,000 varieties of products displayed. In general, more than 20,000 varieties of products are on display. To complement with this exhibition, the trade center has built a service building on the basis of an office building nearby with a total space of 3,000 square meters. In addition, a storage and transportation company has set up a transportation service department in the center.

Since its formation 3 months ago, the Chongqing Trade Center of Manufactured Goods has received traders from 26 provinces, and industrial and commercial units, supply and marketing cooperatives, and collective and individual enterprises in the city who have come to carry out business negotiations. Transactions have totaled more than 110 million yuan (including the 1.07 million yuan made during the goods supply fair held by the trade center on behalf of certain specialized companies). Of the total direct transaction volume, about 60 percent was made by individuals and collective units. For example, a total of 114 units have purchased goods from textile trading hall on 15 March alone, with sales volume coming to 300,000 yuan. Of these units, there were 20 industrial units, 41 collective units, 6 supply and marketing cooperatives, and 47 state units. A collective shop from Guanyinqiao in Jiangbei district purchased 60,000 to 70,000 pairs of stockings that were transported to and sold in Qijiang. This shop later purchased more goods from the center and these goods have been marketed in Guiyang and Bazhong of Sichuan Province. This practice is helpful in decreasing circulation links and in the interest of supplying manufactured goods to rural areas on the basis of rational commodity circulation. The knitwear trading department has coordinated with an industrial company in Jianglin County of Hubei Province in marketing cotton or linen bedspreads. They [as published] provided 500,000 yuan

worth of goods and the latter made payment after the goods were sold, with the trade center receiving 70 percent of the profit. Some other trading halls now have been able to investigate goods, write out receipts, make payments, and transport goods right on the spot. This practice has been welcomed by customers because it has brought them conveniences and shortened the time needed in purchasing goods. The measures taken by the trade center to display light industrial and textile products from the city and other places have played an active role in strengthening publicity, expanding influence, expanding varieties of local products, and improving quality.

III. Future Plans for the Trade Center

Premier Zhao Ziyang has visited the trade center, which he said is a very good form for promoting the circulation of commodities. As consumer goods are increasingly abundant, it is imperative to popularize this form gradually and in a planned way so that it will be able to replace the old method of distributing manufactured consumer goods on the basis of administrative regions. Premier Zhao pointed out that it is necessary to raise the understanding of trade centers into a new level and he pointed out the orientation for the development of this center. In order to develop the trade center, we will concentrate our efforts in carrying out the following work.

1. Step up the construction of medium and small trade centers for manufactured goods so as to gradually form circulation network. In order to further improve the circulation network, we plan to construct 12 medium and small trade centers in the counties and regions under the jurisdiction of Chongqing. These centers will be built in towns most accessible to traffic and with the most rational economic development trend. These centers are not subject to restriction in administrative regions. Some of these centers will transit through three-level wholesale and some others will be newly built. These trade centers will only have economic and not subordinate relationship. They are independent in carrying out business activities and they will carry out trading activities flexibly. These trade centers will first of all and gradually form the network within the city and this network will be gradually expanded later.

2. Persist in carrying out work on the basis of the law of value and determine prices on the basis of wholesale. The introduction of commodity pricing is the core for activating circulation. In the past, pricing was made on the basis of the goods supplied to different levels, with fixed allocation and transfer of goods and certain discount. As a result, the surplus wholesale enterprises that have survived by solely relying on linking trading business can in no way be decreased. On the other hand, the effective method of combining purchase with sale and combining purchase with scattered sale cannot be popularized. When the economic lever of wholesale price has been introduced, big retail enterprises will have the chance to directly purchase goods. At the same time, small retail enterprises will be compelled to integrate so as to be able to directly purchase goods in the way of trespassing certain links. In this way, commodities can be sold and purchased in bulk to regulate commodity handling volume, decrease links and smooth out circulation. Measures will also be taken to gradually introduce qualitative price differences, seasonal price differences, and style price differences so as to really display the regulating role of the law of value and carry out business in big volume and in a flexible way.

3. Do a good job of the building of supplementary facilities so as to perfect the trade center. The trade center must perfect its own supplementary facilities so as to bring conveniences to customers and provide quality service. This move represents the key for concluding big business. Concretely speaking, it is imperative to solve well the following three questions. First, create good conditions for the circulation of commodities and build warehouses. Part of the existing 53,000 square meters of the warehouses around the trade center will be turned into distribution warehouses for wholesale and make delivery on the spot. Second, to provide good living conditions. We have planned to build 5,000 square meters of hotel and restaurant that can handle 500 customers. Air raid shelters will be used as additional conference rooms and negotiation rooms. Third, to provide conditions for remittance and exchange service and telecommunications. Post and telecommunications department and bank will set up offices in the center on the basis of the needs of business so as to serve customers.

4. Set up an information service. It is indispensable in serving customers to provide an information service. The trade center will step up exchange of data with various circulation networks and concentration points so as to collect various data that will be comprehensively analyzed and fed back to customers as an information service. In this way, customers will be able to select the best method in making decisions to shorten the time spent negotiating and signing contracts and increase turnover rate. It is also imperative to grasp market situations through the prediction of market data so as to promote marketable products and benign circulation of social reproduction. When conditions permit, it is imperative to use computers to collect, analyze, and store data so as to further improve work efficiency.

Although the trade center has made certain achievements since its formation, it represents a totally new form of work, with complicated situations. The new contradictions and problems that will crop up in the process of reform cannot be resolved at once. Therefore we have to constantly study them so as to ensure that the trade center will be able to develop healthily.

CSO: 4006/693

FOREIGN TRADE AND INVESTMENT

DESIRE FOR INCREASED TRADE WITH PRC EXPRESSED

AU021851 Warsaw RZECZPOSPOLITA in Polish 30 Jun/1 Jul 84 p 7

[Article by Lech Kantoch: "PPR-PRC Cooperation"]

[Text] The PPR and the PRC have for years been maintaining brisk economic contacts, which have been facilitated by the complementary nature of their economies. Poland's trade with China is regulated through an agreement on trade turnover and payments on an annual scale. The turnover is balanced annually and settled through the clearing system, while its value is calculated in Swiss francs.

Poland's trade with China has increased systematically in recent years. This took place despite various difficulties and restrictions which it faced in 1979 when it reached its highest level—435 million Swiss francs (while turnover for this year is estimated at 452 million Swiss francs). The only temporary halt in turnover took place in 1980 when the Chinese authorities made large cuts in their overdeveloped investments front. However, these cuts also affected all China's economic partners.

The increase of trade between Poland and China depends on the economic development of both countries and both sides are looking for suitable advantages for themselves in this development. For Poland, this means developing relations with a country that enjoys international recognition for the quality of its products and the punctuality of its deliveries. China can, on the other hand, find many contracting parties in Poland who can participate in the country's widely developed modernization program.

Despite the fact that bilateral trade still has not reached its full potential and goes on at a relatively low level--last year it amounted to over 460 million Swiss francs--the trade which has been engaged in until now has an important role to play in the economies of both countries. This is because it concerns areas that both sides attach much importance to, both from the point of view of both countries' current as well as long-term needs.

From China we import production materials, raw materials, market goods, and agricultural-food products. The items in the last group are of particular importance, that is--tea, rice, meat, oleiferous seeds, and spices. We also

import tungsten, iron ore, antimony, mercury, various raw materials for pharmaceutical production, as well as leather raw materials and pork intestines [for sausage skin casings]. From China we buy raw materials, cotton textiles and silks, knitted goods, and textile-rubber footwear, and so on.

In exchange, we sell steel goods, chemical raw materials, mining and textile machines and equipment, lathes, passenger cars (the Polonez and Fiat models), spare parts, and other industrial goods. This imports and exports structure is as beneficial to us as it is to our Chinese partner.

In 1982, China gave Poland a 10-year period of interest-free credit in which to pay for 50,000 tons of boneless pork from the PRC--this was on its own initiative and was done for the first we are also importing 10,000 tons of pork from the PRC, but the repayment for this will be settled in 5 years time.[as printed]

Relations between our countries are not limited to trade as we are developing economic relations in various areas. Some enjoy a good continuity that spans many long years, while others have recently been embarked on, and there are, moreover, many possibilities to develop this cooperation. China's interest in cooperating with the Polish mining and motor car industry is well-known.

These are just the main areas for possible cooperation, and the constant growth of turnover as well as our exceeding the 1 billion Swiss francs level in the next few years seems realistic.

CSO: 2600/1146

FOREIGN TRADE AND INVESTMENT

POLITYKA INTERVIEWS PRC'S CHEN MUHUA

AU201339 Warsaw POLITYKA in Polish 14 Jul 84 p 13

[Interview with Mrs Chen Muhua, PRC state councillor and minister of foreign economic relations and trade, by Jacek Poprzeczko: "Getting Off New Ground"-- date and place not given]

[Text] [Poprzeczko] We are watching with interest what the people in the PRC call "the policy of opening up to the world." What is especially important for Poland is the future of its economic relations with China within that policy. As your Polish visit has shown, these relations have been clearly resuscitated in the past few years, but the significance of Polish-Chinese trade is relatively small. In 1983 the PRC's share in Polish foreign trade accounted for about 1 percent. What can be done to raise this trade to a level consistent with the economic potentials of our two countries? I think that your talks during your visit in Poland centered around this question.

[Chen Muhua] I am very pleased that my aides and I have been able to visit Poland at the invitation of Vice Premier Janusz Obodowski and Tadeusz Nestorowicz, minister of foreign trade. I would like your weekly to extend to the Polish people best greetings from the Chinese people. I would also like to stress that we have had a warm and hospitable reception from official personalities and from industrial and agricultural workers we have been able to meet. Please extend to them my very cordial thanks.

We had friendly talks with Vice Premiers Messner, Obodowski, and Gorywoda, with the ministers of foreign trade; agriculture and food economy; and mining and energy; and with the vice ministers of other ministries concerned. We discussed our two countries' economic situation and our cooperation and its prospects. We think that these talks were useful and constructive and that their results will be of great importance for our bilateral relations.

[Poprzeczko] Up till our economic relations have been based on annual trade protocols. What is the significance of the new long-term accords signed during the present visit?

[Chen Muhua] We signed two very important documents: the intergovernmental accords on economic and technical cooperation and on setting up the Polish-Chinese Committee for Economic, Trade, and Scientific-Technical Cooperation. This has given us a new starting point for further developing our cooperation. We have also agreed to begin negotiations on a 5-year trade accord for 1986-1990. The talks should begin at the end of this year or at the beginning of next.

[Poprzeczko] How do you evaluate the present state of our trade? What about the quality and punctuality of Polish supplies?

[Chen Muhua] We think that the implementation of this year's trade protocol is proceeding favorably. The contracts have already exceeded 60 percent of the planned value. The Chinese and Polish foreign trade agencies are making efforts to complete the implementation of the contracts as soon as possible. We hope that the trade in goods will reach the highest level ever in the past few years.

[Poprzeczko] Although the value of that trade is relatively low, some Chinese goods--especially tea, cotton goods, and school articles--are present in the Polish shops in quantities. The Chinese supplies of nonferrous metals and truck tires are of crucial importance for our industrial enterprises. What Polish goods are most important for our PRC clients?

[Chen Muhua] Your traditional exports--metallurgical goods, chemical fertilizers, and sulfur. We think that we could expand this list, and this subject was discussed during our visit. For example, we want to import your coal.

[Poprzeczko] Is this profitable? Coal transportation to China must be very expensive. Besides, China produces over 600 million tons of coal a year.

[Chen Muhua] It is true that we produce a great deal of coal, but we need more than we are able to produce. We want to buy the Polish coal that has high calorific qualities. Importing such coal is worthwhile despite high transportation costs.

[Poprzeczko] Machines and equipment were the main items of our exports up to 1981, but later on their share in exports went down dramatically. Is the Chinese side satisfied with the present structure of Polish exports. How does it evaluate the possibilities for changing this structure?

[Chen Muhua] We see considerable opportunities for imports of highly sophisticated Polish industrial goods. For example, we are interested in various vessels, energy boilers, machines, and equipment, some of which could help modernize some branches of our industry.

[Poprzeczko] China is attaching great importance to the program for modernizing industry. What are the areas in which you think China is most interested in cooperation with Poland?

[Chen Muhua] A delegation of the State Economic Committee of the PRC visited Poland and agreed with your officials on 15 subjects for cooperation aimed at modernizing various branches of our industry from automobile production to sugar mills. We think that this is just a beginning. We would like Polish specialists to come to China and study our enterprises; in which case they will certainly find out that opportunities for our mutual cooperation are much more extensive.

[Poprzeczko] What are the prospects for developing Chinese exports to Poland?

[Chen Muhua] We can pay for the goods from you with our industrial consumer goods and by farm-food articles, including light industry products, textiles, electronic items, truck tires, cotton, and fodder grains.

[Poprzeczko] Actually, Polish-Chinese trade is based on barter. It is true that accounts are made in Swiss francs, but payments are done by barter goods. Does this not curb the opportunities for increasing our mutual trade?

[Chen Muhua] We can increase these opportunities by means of multiple clearing operations--by transactions in which other countries also participate. We also expect that our trade will be increased through developing industrial cooperation. We already have scored some achievements in electronics and continue to exchange subassemblies and component parts. We think that our cooperation, especially in the machine-building industry, will increase as our scientific-technical cooperation develops. Our two countries are interested in exchanging technical ideas and modern products. I would like to draw your attention to yet another opportunity for promoting our cooperation. You are right in stressing that China is pursuing the policy of opening up to the world. One feature of this policy is that we encourage our foreign partners to invest in our country and to set up companies with foreign capital. We invite Polish enterprises to set up such companies. We will treat you in line with the same principles we apply to other partners and we will grant you the same concessions. After all, we have had joint positive achievements in this regard. The Sino-Polish Ocean Company, which now owns 24 vessels, has been successfully operated for the past 33 years.

[Poprzeczko] The PRC is setting up special economic zones, which offer privileged investment conditions to foreign capital. How could Polish enterprises take advantage of such conditions? Are these investments supported by foreign exchange or by other forms such as the supply of equipment, for example?

[Chen Muhua] Our policy is very flexible, and we apply no restrictions. On the contrary, we support various forms of investments. Foreign partners may contribute machines, equipment, and modern technology. Investments can be made in many sectors. Companies are being set up in almost all branches of the extraction, metallurgical, light, and machine-building industries, as well as in farming. For example, we have a company that is helping build a coal mine. You have mining machines. I think that that company would be willing to accept the contribution of such machines.

[Poprzeczko] Following the visit and talks in our country, how do you evaluate the general condition of the Polish economy and its export potential?

[Chen Muhua] Our visit has convinced us that the Polish people have improved their economic situation by overcoming many difficulties. We know that you were in a much worse situation not so long ago, but now everyone can see that Poland is no longer at rock bottom. We are very pleased with this and we are convinced that, relying on their own resources, the Polish people will be able to cope with

the hindrances that are still blocking the road to economic development. This is creating favorable prospects for further progress in our cooperation, for which every condition is present from the economic viewpoint. We are linked by common hopes and by common resolve to raise our mutual economic relations to an ever higher level. As for the Chinese side, we are optimistic in evaluating these prospects. We think that the development of economic and scientific-technical cooperation is consistent with our peoples' vital interests. We will make intensive efforts to implement our appointed goals.

CSO: 2600/1146

FOREIGN TRADE AND INVESTMENT

HEBEI GOVERNOR DISCUSSES INTERNATIONAL COOPERATION

OW091445 Beijing XINHUA in English 1430 GMT 9 Aug 84

[Text] Beijing, 9 Aug (XINHUA)--Hebei Province will offer preferential conditions to cooperative ventures between the province and foreign countries and regions, provincial governor Zhang Shuguang said here today.

All joint-venture enterprises set up by foreign firms and Hebei Province will be legal persons as soon as they are registered and all the legal rights and interests of overseas investors will be protected by Chinese laws. All parties will be equal and no one will be discriminated against, he said.

The joint-venture enterprises will enjoy full decision-making powers concerning personnel, materials, finance, production, supply of materials and sales. All major issues such as development programs, management plans, profit distribution, financial budget and account of revenues and expenditures, employment of workers, payment, and awards and penalties will be decided through free discussions within the enterprises.

The province encourages cooperative enterprises to sell their products on the international market, but some are allowed to sell part or all of their products on the domestic market.

To speed up the absorption of foreign funds and the import of technology, the province will simplify various kinds of procedures relating to the examination and approval of projects, and the entry and exit of foreign businessmen.

Priority will be given to the imported technological items in energy supply, raw materials supply, transportation, and the installation and use of telecommunications facilities.

Infrastructure projects involved will be speeded up, he said.

CSO: 4020/168

FOREIGN TRADE AND INVESTMENT

BRIEFS

PRC IN ZAMBIAN TRADE FAIR--Ndola, 30 Jun (XINHUA)--The 20th international trade fair today opened in Ndola city, northern Zambia. In his speech at the opening ceremony, President Kenneth Kaunda urged the developed countries to transfer technology and technical know-how to the developing countries and remove their tariff barriers so as to promote two-way trade. Over 70 Zambian companies together with those from Botswana, Britain, China, Czechoslovakia, Kenya, Mozambique, Tanzania, the United States and Zimbabwe attend the fair. The Chinese pavilion with some 800 exhibits including machinery and equipment, light industrial products, textiles, silk fabrics and arts and crafts, won three trophies. When visiting the Chinese pavilion yesterday, Kaunda and other Zambian officials highly praised the Chinese goods on display. Since its independence in 1964, Zambia holds international trade fair every year and the current one will end on July 3. [Text] [OW302212 Beijing XINHUA in English 1900 GMT 30 Jun 84]

UPGRADING HARBIN FACTORY--Harbin, 2 Jul (XINHUA)--China's largest producer of electric control apparatus for telegraph and telephone service, located in Harbin, capital of Heilongjiang Province, has invited five Japanese experts to help upgrade its technology and boost production. The experts, from the international business consulting company limited and two other Japanese companies, will offer technical guidance and information for the Acheng relay plant. The 5,000 workers and staff members at the plant produce 370 varieties of electric appliances of more than 2,300 specifications. Some are sold abroad. The plant's output value this year is expected to reach 50 million yuan. Earlier this year, Tianjin, a major trade port in north China, invited a 12-member advisory group from Kobe, Japan, to help modernize its harbor. [Text] [OW021242 Beijing XINHUA in English 1159 GMT 2 Jul 84]

JOINT OIL VENTURE--Beijing, 4 Aug (XINHUA)--A joint venture company producing 50,000 tons of lubricating oil per year has been set up by the China Petrochemical International Company and the American Sun Refining and Marketing Company. This was announced by Zheng Zhongfang, chairman of the new venture, China Sun Oil Company, at a press conference here this afternoon. A contract on establishing the 15-year-term venture was signed last June. The China Sun Oil Company will be based in the Shenzhen Special Economic Zone in South China's Guangdong Province. The registered capital of the company is 6.5 million U.S. dollars, of which, 4 to 4.5 million will be used to build a refinery for lubricating oil. The Chinese partner is an affiliate of the China Petrochemical Corporation which

was established in July, 1983 and has more than 50 plants, design institutes, construction companies and schools. Founded in 1885, the Philadelphia-based Sun Refining and Marketing Company is the second largest of its kind in the United States. The joint venture and I believe that it would be successful," he added. [sentence as received] [Text] [OW050418 Beijing XINHUA in English 1251 GMT 4 Aug 84 OW]

SINO-AMERICAN CARPET PRODUCTION DEAL--Tianjin, 29 Jun (XINHUA)--Tianjin is to cooperate with the American city of Philadelphia in carpet production under an agreement signed here today. The deal was signed by the Tianjin carpet branch of the China National Native Produce and Animal By-Products Import and Export Corporation, and Maloumian and Sons of Philadelphia. Under the five-year agreement, a carpet factory in Wuqing County of Tianjin will produce 100,000 square feet in the first year up to 350,000 square feet in the fifth. The Chinese partner will be responsible for production, while the Americans will provide equipment of 20,000 U.S. dollars (about 44,000 yuan) worth, patterns, color schemes and samples. Sale of products will be handled by the American firm. The delegation headed by David Brenner, director of commerce of Philadelphia, left here for Beijing in the afternoon. [Excerpt] [OW291628 Beijing XINHUA in English 1443 GMT 29 Jun 84 OW]

CSO: 4020/168

SPECIAL ECONOMIC ZONES

BRIEFS

ZHUHAI WHARF LOAN AGREEMENT--Hong Kong, 8 Aug (XINHUA)--Under an agreement signed here today, an international bank will provide 63.96 million U.S. dollars in loans to fund two construction projects in the Zhuhai special economic zone, Guangdong Province. The deal was concluded by the Lloyds Bank International Ltd., a consortium of 11 banks and Gladhover Ltd. of Hong Kong. The loans will be used to build a deepwater wharf and residential quarters at the port of Jiuzhou. The projects are designed to provide support services for the exploration and development of oilfields in the South China Sea. Construction began in May by a company composed of Gladhover Ltd., the Zhuhai Special Economic Zone Development Company and the China Nanhai Oil Joint Service Corporation. Covering 14.1 square kilometers, Zhuhai is one of China's four special economic zones, where preferential treatment is given to overseas investors. Zhuhai is situated on the West Bank of the Pearl River estuary and borders on Macao. [Text] [OW081537 Beijing XINHUA in English 1430 GMT 8 Aug 84]

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